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ACCOUNTING ADVISORY SERVICES

KPMG in Slovakia / December 2013

Newsletter | Amendment to the Act on Accounting

Based on Act No. 352/2013 Coll. of 17 October 2013, Act No. 431/2002 Coll. on Accounting has been amended. The changes will enter into force on 1 January 2014. Here is a list of selected changes.

Description	Previous legislation	New legislation	Substance of change
Register of Financial Statements	Financial statements, an auditor's report, and an annual report shall be filed in the Collection of Deeds of the Commercial Register. Selected data shall be published in the Commercial Bulletin.	The Register of Financial Statements has been established.	See separate Accounting Advisory Services Newsletter from December 2013.
Micro-accounting entities - definition	Micro-accounting entities are not defined as a separate group. There are two groups of accounting entities (Article 19): - accounting entities for which a statutory audit of individual financial statements is not obligatory, and - accounting entities for which it is obligatory. The difference between them consists of the following obligations: - to prepare an annual report, - to have consistency of the annual report with the financial statements audited by an auditor, - to publish selected data in the Commercial Bulletin, - to account for deferred taxes, - to use method A to account for inventory, instead of method B, - to prepare a cash flow statement as part of the financial statements.	Article 2 (5): A company, cooperative, a certain sole trader, and land association are considered a micro-accounting entity if: - they decide to proceed as a micro-accounting entity with respect to the accounting period during which they were incorporated, **or** - as of the balance sheet date and for the preceding accounting period, they did not exceed two of the following criteria of size: their total gross assets did not exceed €350,000, their net turnover did not exceed €700,000, their average number of employees did not exceed 10, **or** - they exceeded two of these criteria of size only in one of two successive accounting periods and were considered a micro-accounting entity in the first of these two accounting periods. Article 2 (6): An accounting entity that meets the above conditions becomes a micro-accounting entity if it so decides; this accounting entity is required to proceed with accounting and reporting as a micro-accounting entity during the period in which it meets these conditions. Article 2 (7): An accounting entity referred to in Article 17a is not a micro-accounting entity.	A new group of accounting entities, namely micro-accounting entities, has been established in compliance with EU Directive No. 2013/34/EU of 26 June 2013 on accounting and Directive No. 2012/6/EU on micro-entities. Only the following accounting entities may be micro-accounting entities: a company, cooperative, a certain sole trader, and land association. Other accounting entities may not be micro-accounting entities, for example, a state-owned company, municipality, foundation, etc. Accounting entities referred to in Article 17a, for example, banks, insurance companies, administration companies etc., also may not be micro-accounting entities. An accounting entity that meets the conditions specified in Article 2 (5) may (= optional) decide whether it will consider itself a micro-accounting entity. If it begins to proceed and prepare its financial statements as a micro-accounting entity, it must adhere to this procedure as long as it meets the conditions for a micro-accounting entity. This is intended to ensure the principle of continuity of reporting. If the accounting entity exceeds the criteria of size during two successive accounting periods, it will cease to be a micro-accounting entity. **Transitional provisions** According to Article 39j, the provisions of Article 2 (5) to (7) shall be used for the first time with respect to the accounting period beginning on 1 January 2014 or later.

Simplification for micro-accounting entities	As micro-accounting entities are currently not defined, they have the same obligations as any other accounting entity that is not required to have its financial statements audited by an auditor.	Article 25 (7): As of the date of an accounting transaction (initial recognition, Article 24 (1) (a)), a micro-accounting entity shall not value securities and derivates at their fair value. Article 27 (11): As of the balance sheet date (Article 24 (1) (b)), a micro-accounting entity - shall not value assets and liabilities at their fair value (except for companies and cooperatives being wound up without liquidation, i.e., in the instance of a merger, amalgamation into a separate accounting entity and demerger) - shall not value assets under the equity method. **Further changes** to accounting legislation are under preparation (currently subject to an interdepartmental review): - completion of the Accounting Procedures for Entrepreneurs to the effect that micro-accounting entities should not value assets and liabilities at their fair value (Article 14, Article 16) and that they do not have to defer/accrue expenses (Article 56), - a new Decree of the Slovak Finance Ministry on financial statements of micro-accounting entities: they will have a simplified balance sheet, income statement, and notes to the financial statements.	Micro-accounting entities **shall not value (= must not value)** - assets and liabilities **at their fair value**, and - assets (20% or more of voting rights; Article 27 (1) (a), Article 27 (9)) under the **equity method**, namely - either as of the date of initial recognition, - or as of the balance sheet date (except for companies and cooperatives being wound up without liquidation). **Transitional provisions** According to Article 39j, the provisions of Article 25 (7) and Article 27 (11) shall be used for the first time with respect to the accounting period beginning on 1 January 2014 or later. The change in the valuation method should be presented in the financial statements for the accounting period beginning on 1 January 2014 or later. In our opinion, if an accounting entity values its assets and liabilities at their fair value and assets under the equity method until the end of 2013, becomes a micro-accounting entity in 2014, and is no longer allowed to value them in the same way, this constitutes a **change to the accounting principles and accounting policies.** Therefore, the impact of this change should be recorded in account 428 – *Retained earnings from previous years* or in account 429 – *Accumulated losses from previous years* (Article 59 (13) of the Accounting Procedures for Entrepreneurs) in the case where it would otherwise (if this did not constitute a change to the accounting principles and accounting policies) be accounted for as an expense or income (and not in account 414 – *Differences from revaluation of assets and liabilities*). By analogy, the same applies the other way around, i.e., if an accounting entity is no longer a micro-accounting entity.
Signing of financial statements	Article 17 (2) (f): Financial statements shall contain the signature of: - the accounting entity's statutory body or a member of its statutory body, - the person responsible for their preparation, - the person responsible for bookkeeping.	Article 17 (2) (f): Financial statements shall contain the signature of: - the accounting entity's statutory body or a member of its statutory body.	The signatures of the person responsible for the preparation of the financial statements and the person responsible for bookkeeping are not required, because, in the final analysis, bookkeeping and the preparation of the financial statements are the responsibility of the accounting entity's statutory body, for example, - in a limited liability company, it is a director (konateľ) (Article 135 (1) of the Commercial Code), - in a joint stock company, is it the board of directors (Article 192 (1) of the Commercial Code), - in a limited partnership, it is the general partner (Article 101 (1) of the Commercial Code), - in a general partnership, it is each partner (Article 85 of the Commercial Code).

			The right to sign on behalf of a company is usually defined in its articles of association or articles of partnership in various ways. If, for example, a limited liability company has two directors, it is sometimes stipulated in the articles of association that each director is entitled to sign on behalf of the company **independently**, whereas at others times it may be stipulated that the two directors must sign **jointly** on behalf of the company. Analogically, the procedure is the same in other companies as well. Another reason for omitting the signatures of the person responsible for the preparation of the financial statements and the person responsible for bookkeeping is that, in most cases, documents are submitted in electronic form and it is sufficient for the accounting entity to ensure the signing of the financial statements by means of a single qualified electronic signature or a single certificate if the accounting entity has concluded an agreement on electronic submission.
Criteria of size applicable to the obligation to prepare financial statements according to the IFRS as adopted by the EU	Article 17a (2): Individual financial statements according to the IFRS as adopted by the EU shall be prepared by a company that meets at least two of the following conditions for at least two successive accounting periods: - its total gross assets exceeded €165,969,594.40, - its net turnover exceeded €165,969,594.40, - its average number of employees exceeded 2,000.	Article 17a (2): Individual financial statements according to the IFRS as adopted by the EU shall be prepared by a company that meets at least two of the following conditions for at least two successive accounting periods: - its total gross assets exceeded €170,000,000, - its net turnover exceeded €170,000,000, - its average number of employees exceeded 2,000.	The criteria of size - total gross assets and net turnover - have been slightly increased, from €165,969,594.40 to €170,000,000. **Transitional provisions** According to Article 39j, the provisions of Article 17a (2) in the wording effective from 1 January 2014 shall be applied to the preparation of financial statements prepared as of 1 January 2014 or later.
Preparation of individual financial statements according to the IFRS as adopted by the EU (IFRS/EU)	Article 17a defines accounting entities - that must and - accounting entities that may (if they so decide) prepare their individual financial statements according to the IFRS/EU. This means that there is a group of accounting entities that - are required to prepare these financial statements and - accounting entities that may opt to prepare them, depending on their decision.	Article 17a (3) (c) and (d): An accounting entity **may** decide to prepare individual financial statements according to the IFRS/EU if it is - a successor accounting entity, where the accounting entity being wound up or the successor accounting entity prepared individual financial statements according to the IFRS/EU prior to the decisive date, - a newly established subsidiary accounting entity that meets the criteria of size as of the date of preparation of its first individual financial statements, and, at the same time, its parent accounting entity, which is subject to the law of a	The group of accounting entities that **may** (= optional, depending on their decision) prepare their individual financial statements according to the IFRS/EU has been enlarged, but this provision does not apply to accounting entities referred to - in Article 17a (1) – banks, insurance companies, administration companies, etc., - in Article 17a (2) – accounting entities that meet the criteria of size. The terms "accounting entity being wound up" and "successor accounting entity" are used with respect to a merger (A + B = A), amalgamation into a separate accounting entity (A + B = C) and demerger (A = B + C). The decisive date is the date from which any acts of companies being wound up are considered the acts carried out on behalf of the successor company (Article 4 (3) of the Act on Accounting; Article 69 (6) (d) of the Commercial Code).

		member state, prepares individual financial statements according to the IFRS/EU.	**Transitional provisions** According to Article 39j, the provisions of Article 17a (3) (c) and (d) in the wording effective from 1 January 2014 shall be applied to the preparation of financial statements prepared as of 1 January 2014 or later.
Obligation to prepare an annual report	Article 20 (1): An accounting entity that must have its financial statements audited by an auditor according to Article 19 is required to prepare an annual report.	Article 20 (1): An accounting entity that must have its financial statements audited by an auditor according to Article 19 is required to prepare an annual report, except for - branch of a foreign bank, - branch of a foreign administration company, - branch of an insurance company from another member state, - branch of a foreign insurance company, - branch of a reinsurance company from another member state, - branch of a foreign reinsurance company, - branch of a foreign security trader.	This constitutes exemption from the obligation to prepare an annual report for branches - organizational units. These are included in the annual report of the company that has incorporated them.
Criteria of size for the establishment of the obligation to have financial statements audited by an auditor	Article 19 (4): Legal entities defined by special legislation (civic association, foundation, noninvestment fund, nonprofit organization providing public services for the general good, etc.), whose total annual share of tax received exceeds €33,193.92, are also required to have their financial statements audited by an auditor.	Article 19 (4): Legal entities defined by special legislation (civic association, foundation, noninvestment fund, nonprofit organization providing public services for the general good, etc.), whose total annual share of tax received exceeds €35,000, are also required to have their financial statements audited by an auditor.	This refers to accounting entities that are entitled to accept 2% of taxes. The criterion of size regarding the share of tax received has been slightly increased, from €33,193.92 to €35,000.
Public sector – audit of summarized financial statements by an auditor	Article 22a (5): Consolidated financial statements of public sector accounting entities, consolidated financial statements of central administration, and summarized financial statements of the public sector shall be audited by an auditor.	Article 22a (5): Consolidated financial statements of public sector accounting entities and consolidated financial statements of central administration shall be audited by an auditor.	The following consolidated financial statements should be prepared in the public sector: - of public sector accounting entities (for example, administrators of state budget sections), - of central administration (state administration) as a whole; these are prepared by the Slovak Finance Ministry. In addition, the so-called summarized financial statements should be prepared with respect to the public sector as a whole (including territorial administration); these are prepared by the Slovak Finance Ministry as well. They include more than 8,000 accounting entities (including more than 2,900 municipalities and 8 higher territorial units). The change is that the obligation to have **summarized financial statements** audited by an auditor has been omitted, given the great diversity of the summarized group, the absence of a decisive influence, etc.

Initial recognition – valuation of securities and ownership interests in share capital at their fair value	Article 25 (1) (e) (3): Upon initial recognition (i.e., as of the date of the accounting transaction, Article 24 (1) (a)), the following shall be valued at fair value: - securities held for trading, - securities included in the assets of a fund, unless special legislation provides otherwise, - available-for-sale securities of a security trader who does not prepare individual financial statements according to the IFRS/EU (Article 17a (3)).	Article 25 (1) (e) (3): Upon initial recognition (i.e., as of the date of the accounting transaction, Article 24 (1) (a)), the following shall be valued at fair value: - securities held for trading, - securities included in the assets of a fund, unless special legislation provides otherwise, - available-for-sale securities of a security trader, payment institution, and electronic money institution that do not prepare their individual financial statements according to the IFRS/EU (Article 17a (3)), as well as of a branch of a foreign financial institution, except for a branch a foreign administration company, - derivatives included in the assets of a fund, - derivatives of a security trader, payment institution, and electronic money institution that do not prepare their individual financial statements according to the IFRS/EU (Article 17a (3), as well as of a branch of a foreign financial institution, except for a branch a foreign administration company, - ownership interests in share capital of companies, which are not in the form of securities and are included in the assets of a fund.	This refers to valuation at **fair value** upon initial recognition, rather than as of the balance sheet date. The obligation to use the fair value has primarily been extended to: - ownership interests in share capital, which are not represented by securities, - derivatives. Act No. 203/2011 Coll. on Collective Investments has made it possible to create special unit trusts of alternative investments, where an alternative investment may also constitute an ownership interest in a company, which is not represented by securities, for example, an ownership interest in a limited liability company, limited partnership, or general partnership. As the unit trust is incorporated to increase the value of assets for stockholders, it is necessary to continuously monitor this increase and provide this information to stockholders. This is the reason why these ownership interests should be valued at their fair value from the beginning. The same applies to derivatives held by accounting entities listed in Article 25 (1) (e) (3). It is a priority for accounting entities in the financial sector to have selected types of assets valued at their fair value. These include funds (of collective investments, pension funds, and supplementary pension funds), security traders, payment institutions, electronic money institutions, and certain types of branches of financial institutions. If assets were to be initially recognized at their acquisition cost, which also includes costs related to the acquisition of these assets, and these assets were to be subsequently valued at their fair value (which does not include these costs), the lines of valuation of the same asset item would not be consistent, because the contents of the individual valuations of this asset item would not be identical. Immediately upon the first revaluation of such an asset item following its initial recognition, this valuation would be reduced by the costs related to acquisition and this reduction in the valuation would be reflected in the income statement as a loss on valuation, rather than costs related to acquisition, even though the latter is the case in reality. In order to assess the success of trading in financial assets, costs related to the acquisition of these assets need to be presented separately, rather than capitalized by being included in the valuation of the relevant asset item.

Initial recognition – valuation of deposits in banks at their present value	Article 25 (3): Receivables and liabilities included in the assets of a fund shall be valued at their present value. Receivables and liabilities of a fund, which are not payable in installments and whose agreed maturity is less than one year, may be valued at their nominal value.	Article 25 (3): Receivables of a fund acquired as investment instruments, except for deposits in banks, and liabilities of a fund acquired for the financing of the fund shall be valued at their present value.	Bank deposits, whose valuation at their nominal value is customary in business and part of which cannot be valued at fair value because they neither have a fixed maturity nor a fixed interest rate, have been exempted from the valuation at fair value. In addition, receivables and liabilities that have not been acquired with the aim of investing or financing, i.e., those not acquired within the fund's business policy, have been exempted from the valuation at fair value. These are mostly of transitional nature, for example, receivables related to inputs in a fund, liabilities related to outputs from a fund.
Simplification for accounting entities that have not been established or incorporated to carry out business activities	There are currently no simplifications for these accounting entities.	Article 25 (7): As of the date of the accounting transaction (initial recognition, Article 24 (1) (a)), these accounting entities shall not value securities and derivates at their fair value. Article 27 (11): As of the balance sheet date (Article 24 (1) (b)), these accounting entities - shall not value assets and liabilities at their fair value (except for companies and cooperatives being wound up without liquidation, i.e., in the instance of a merger, amalgamation into a separate accounting entity and demerger) - shall not value assets under the equity method. Article 26 (7): These accounting entities do not have to account for value adjustments and provisions. To depreciate/amortize assets, they may use depreciation/amortization for tax purposes, instead of depreciation/amortization for accounting purposes (see also the change in Article 28 (3)).	This is intended to reduce the administrative burden for so-called **nonprofit organizations** (foundations, political parties, political movements, civic associations, interest associations of legal entities, churches and religious associations, nonprofit organizations providing public services for the general good, noninvestment funds etc.; see Article 1 of Decree of the Slovak Finance Ministry No. 24342/2007-74 on Accounting Procedures and the Chart of Accounts for Accounting Entities That Have Not Been Established or Incorporated to Carry Out Business Activities). Nonprofit organizations **shall not value (= must not value)** - assets and liabilities at their **fair value,** and - assets (20% or more of voting rights; Article 27 (1) (a), Article 27 (9)) under the **equity method**. It is obligatory, rather than optional, not to value these assets in the above manner. Nonprofit organizations **may, but do not have to** (= optional): - account for **value adjustments and provisions,** - use **depreciation/amortization for tax purposes** instead of depreciation/amortization for accounting purposes; this is primarily suitable in the cases where they use non-current assets for taxed activities as well. **Transitional provisions** According to Article 39j, the provisions of Article 25 (7) and Article 27 (11) shall be used for the first time with respect to the accounting period beginning on 1 January 2014 or later. A change in the valuation method shall be presented in the financial statements with respect to the accounting period beginning on 1 January 2014 or later.
Valuation as of the balance sheet date – ownership interests in share capital at their fair value	Article 27 (1) (a): As of the balance sheet date (Article 24 (1) (b)), securities shall be valued at their market price or on the basis of a professional estimate, except for securities held to maturity, securities issued by the	Article 27 (1) (a): As of the balance sheet date (Article 24 (1) (b)), securities **and ownership interests in share capital** shall be valued at their market price or on the basis of a professional estimate, except for securities held to maturity, securities issued by the accounting	Valuation of ownership interests in share capital of companies, which are not in the form of securities, has been changed. As of the balance sheet date, the following is required to be valued at **fair value** (market price or on the basis of a professional estimate): - securities (mostly shares and bonds),

	accounting entity, and ownership interests in share capital of companies for which the accounting entity is the parent accounting entity or in which the accounting entity holds significant influence, significant influence being understood as a minimum of 20 percent of voting rights, except for ownership interests in a real estate company according to special legislation.	entity, and ownership interests in share capital of companies for which the accounting entity is the parent accounting entity or in which the accounting entity holds significant influence, significant influence being understood as a minimum of 20 percent of voting rights, except for ownership interests in a real estate company according to special legislation, **and ownership interests in share capital of companies, which are not in the form of securities and have been acquired to be included in the assets of a special unit trust of alternative investments according to special legislation.**	and - ownership interests in share capital (all ownership interests, i.e., including those in the form of securities – shares, as well as those that are not in the form of securities – for example, ownership interests in a limited liability company). **An exemption** from this obligation applies to the following: - securities held to maturity, - securities issued by the accounting entity, - ownership interests in share capital of companies for which the accounting entity is the parent accounting entity or in which the accounting entity holds significant influence, significant influence being understood as a minimum of 20 percent (i.e., 20% or more) of voting rights, except for ownership interests in a real estate company according to special legislation and ownership interests in share capital of companies, which are not in the form of securities and have been acquired to be included in the assets of a special unit trust of alternative investments according to special legislation. **The change** is that fair value will also be used to value the following: - ownership interests amounting to less than 20% of voting rights in companies, which are not in the form of securities (i.e., these are not joint stock companies), - ownership interests in share capital of companies, which are not in the form of securities (i.e., these are not joint stock companies) and have been acquired to be included in the assets of a special unit trust of alternative investments. It continues to apply that if the fair value cannot be reliably determined, valuation specified in Article 25 should be used (in practice, it is mostly the acquisition cost, reduced by possible value adjustments); Article 27 (9).
Fair value – use of market price	Article 27 (3): Market price is: - the closing price stated on a stock exchange on the date of valuation according to Article 24 (1), or - the most frequently quoted price on another active market on the date of valuation according to Article	Article 27 (3): Market price is: - the closing price stated on a stock exchange on the date of valuation according to Article 24 (1), or - the most frequently quoted price on another active market on the date of valuation according to Article 24 (1); - if no price is quoted on the market, the price	The market price has been defined with regards to the possibilities and capabilities of professional investors, such as funds, security traders etc., in such a way that, if the market price is not available on the valuation date, they will use a market price estimated on the basis of models.

	24 (1); - if no price is quoted on the market, the price quoted on the preceding day on which a price was quoted, on the 10th day at the earliest prior to the date according to Article 24 (1), **shall be used** (= obligatory).	quoted on the preceding day on which a price was quoted, on the 10th day at the earliest prior to the date according to Article 24 (1), **may be used** (= optional).	
Fair value – professional estimate	Article 27 (6): If the market price cannot be reliably determined, fair value shall be determined on the basis of a professional estimate by discounting future cash payments and receipts at a discount rate of a similar instrument of the issuer to their net present value, or an interest rate that reduces the nominal value of this instrument by an interest discount pertaining to this instrument to the price at which the instrument would be sold.	Article 27 (6): If the market price cannot be reliably determined, fair value shall be determined on the basis of a professional estimate, which is usually based on the present value of future cash payments and receipts related to assets; the discount rate shall be determined as the internal rate of return required by investors for the relevant asset type as of the date of its valuation.	The definition of a professional estimate has been made more specific. All valuation models, which form the basis of professional estimates, are based on the present value of future cash payments and receipts related to assets.
Reconciliation procedures	Article 29 (3): An accounting entity may perform reconciliation procedures regarding **tangible assets** for a period other than the period specified in paragraph 2, but this period must not exceed two years. An accounting entity must perform reconciliation procedures with respect to **cash on hand** at least four times during the accounting period.	Article 29 (3): An accounting entity may perform reconciliation procedures regarding **tangible assets** for a period other than the period specified in paragraph 2, but this period must not exceed four years. An accounting entity must perform reconciliation procedures with respect to **cash on hand** as of the balance sheet date.	The periodicity of reconciliation procedures regarding non-current assets has been changed from two years to four years. It is sufficient to perform reconciliation procedures with respect to cash on hand as of the balance sheet date.

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