

## New Law on Accounting and Financial Statements

July 2018



A new Law No. 25/2018 on Accounting and Financial Statements was approved on 10 May 2018 by the Albanian Parliament abrogating Law No. 9228 dated 29 April 2004 on Accounting and Financial Statements.

The new Law sets out new limits for classification of entities among different categories, a new definition for groups and specific provisions for the preparation of consolidated financial statements and for the functional currency, new rules for the preparation of additional non-financial reports as well as enhanced provisions for the competences and responsibilities of the National Accounting Council.

This new Law is partially harmonised with the directive of the European Union on the annual financial statements, consolidated financial statements and related reports.

### Classification of enterprises and groups for financial reporting purposes

The new Law introduces limits for classification of enterprises and groups for financial reporting purposes.

For the purpose of financial reporting, enterprises are classified among the following categories on the basis of certain indicators determined at the reporting date.

**Micro-enterprises** are enterprises that do not exceed the limits of at least two of the following criteria at the reporting date:

- Total assets – ALL 15 million
- Turnover – ALL 30 million
- Average number of employees during the reporting period – 10

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**Small enterprises** are enterprises which are not micro-enterprises but do not exceed more than two of the following criteria at the reporting date:

- Total assets – ALL 150 million
- Turnover – ALL 300 million
- Average number of employees during the reporting period – 50

**Medium-sized enterprises** are enterprises that are neither micro-enterprises nor small enterprises and they must not exceed two of the following criteria at the reporting date:

- Total assets – ALL 750 million
- Turnover – ALL 1,500 million
- Average number of employees during the reporting period – 250

**Large enterprises** are those enterprises which exceed at least two of the following three criteria at the reporting date:

- Total assets – ALL 750 million
- Turnover – ALL 1,500 million
- Average number of employees during the year – 250

Apart from the categories for business enterprises, the new Law also defines the criteria for classification of groups of business enterprises in small, medium-sized and large groups. The criteria for classification of groups are the same as those for business enterprises and are based on consolidated indicators.

The criteria for classification will be increased every three years to fully achieve, by the year 2028, the criteria determined in the respective legislation of the European Union.

### Applicable accounting standards

Public interest entities that exceed the criteria of medium enterprises and the regulators of public interest entities (i.e. the Bank of Albania and Financial Supervising Authority) will apply the International Financial Reporting Standards (IFRS).

All other enterprises will apply the National Accounting Standards (NAS).

Entities may also select voluntary application of the IFRS.

### Consolidated financial statements

The new Law introduces specific provisions in relation to the preparation of consolidated financial statements by groups of enterprises, which include the parent and its controlled entities.

Small groups are exempt from the requirement on preparation of consolidated financial statements, unless any of the group entities is a public interest entity.

## Use of functional currency

The new Law sets out the possibility to keep accounting records in a functional currency which may be different from the Albanian lek.

The requirement for the presentation of the financial statements in Albanian lek remains unchanged.

## Information to be presented in the notes to the financial statements

Notwithstanding the information disclosed in accordance with requirements of the applicable accounting standards, entities are also required to disclose the average number of employees during the reporting period in the notes to the financial statements.

Medium, large and public interest entities are to disclose additional information in the notes to the financial statements such as compensation of executives, pension commitments, information on interests in associates, fees for audit and non-audit services, etc.

## Performance report

Entities subject to the new Law must prepare a performance report including a comprehensive analysis on the development and performance of the entity, together with a description of the main risks and uncertainties. This report is to contain the main indicators of financial performance and, if possible, non-financial performance including information on environmental and employment issues. The analysis must, where possible, include additional references to the amounts reported in the financial statements.

The performance report must also indicate the potential future development of the entity, activities in the field of research and development, information on redemption of own shares, the existence of the entity's branches, use of financial instruments by the entity, material policies and objectives of financial risk management and the entity's exposure to financial risks.

The following entities are excluded from the obligation to prepare a performance report:

- Micro enterprises
- Small enterprises, provided that they disclose information on redemption of shares in the notes to the financial statements
- Non-profit entities with asset/income lower than ALL 30 million.

## Non-financial report

Large public interest entities that exceed the average number of 500 employees during the reporting period must include in their performance report a non-financial report containing information on the entity's performance and impact on environmental, social and employment issues as well as human rights, anti-corruption and

bribery issues as per the specifications described in the provisions of the new Law.

The non-financial report must, if possible, provide additional references and explanations to the amounts reported in the financial statements.

Controlled entities are exempt from the obligation to prepare a non-financial report if an entity and its subsidiaries are included in the consolidated performance report of another entity.

The statutory auditor or audit firm is to verify, in accordance with the International Standards on Auditing, if the non-financial report / consolidated non-financial report has been compiled.

### **Internal management report**

Public interest entities must include in their performance report a report on internal governance and management.

This report is to contain information on internal rules and control systems, financial risk management policies and procedures, structure and functions of the executive and supervisory bodies and committees, description of policies implemented regarding the entity's executive and supervisory bodies, etc.

### **Consolidated performance report**

Entities that are obliged to prepare consolidated financial statements must also prepare a consolidated performance report enabling the assessment of the overall performance of the entities included in consolidation.

### **Report on payments performed to state institutions**

Large entities and public interest entities that carry out activities in the areas of exploration of natural resources such as minerals, oil, natural gas, etc. must prepare and publish an annual report on payments performed to state institutions.

Similar requirements, with certain exemptions, apply for entities that are obliged by this new Law to prepare consolidated financial statements.

### **Other provisions on the statement of financial position**

In those cases when development costs may be capitalised and their value is not fully amortized, it is not permitted to distribute profits if the total value of reserves and retained earnings is not at least equal to the value of unamortized development costs.

In those cases when the profit from investments in associates recognized in the statement of profit or loss exceeds the amount of dividends received or receivable, the difference that is recognised as reserves must not be distributed to the shareholders.

## Submission and publication of the financial statements

Within 7 months following the reporting date, the entities must submit for publication to the relevant authority where they are registered (e.g. in case of commercial entities to the National Business Center) the annual financial statements, the performance report/consolidated performance report and the audit report, in the cases when the preparation of such documents is required by the new Law.

Medium, large and public interest entities are to publish the annual financial statements, the performance report/consolidated performance report and the audit report, when the preparation of such documents is mandatory, also on their official websites no later than 7 months from the reporting date.

Non-profit organizations having asset/income over ALL 30 million, unless otherwise provided by any legal provision, are to publish the annual financial statements together with the performance report on their official websites.

## Signature of the financial statements

The new Law introduces explicit requirements for the signature of the financial statements, which are to be signed by the legal representative of the entity and the person responsible for the preparation of the financial statements.

## Other provisions

The new Law improves the requirements for the election of members of the National Accounting Council, expanding the possibility for representation of more sectors in the Council and limiting the mandate of members.

It also introduces additional provisions determining the right of the National Accounting Council to monitor the implementation of accounting standards.

## Entry into force

Law No. 25/2018 on Accounting and Financial Statements was published in the Official Gazette on 30 May 2018 and enters into force on 1 January 2019.

## For information

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