KPMG

Question Marks

Amendments to Act on Accounting effective from 2017 – pre-season adjustments

2016. 2nd Issue

In the current issue of our Newsletter we review the major amendments to Act C of 2000 on Accounting (hereinafter: the "Act on Accounting") promulgated on 15 June 2016, along with any related issues. The majority of the amendments will come into force from the beginning of FY 2017, but they may already cover financial years beginning as of January 2016. In the sections below, if the date of coming into force of any legislation differs from the above, this is indicated separately.

The changes:

A contract modification is no longer considered an error, but it should be accounted for as such

According to the amendment of the Act on Accounting, and for the purposes of accounting, subsequent modifications of business transaction features to be entered into the accounting records and relating to a closed financial year or years – as documented by a contract amendment or modified accounting documentation – shall no longer be considered errors or impacts thereof, but should be accounted for as errors. Unfortunately, this also means that if the error is significant, the preparation of so-called "three-column financial statements" cannot be avoided. [Section 3 (3) 2 of the Act on Accounting]

First the capital, then the dividend

According to the new rule, upon the distribution of after-tax profit, the amount of the dividend that would be allocated to the member of the limited liability company who records an unpaid cash contribution, shall be recognised as a decrease in retained earnings, i.e. as an amount transferred to top up registered capital not yet paid. This rule reflects the requirements of the Civil Code. [Section 37 (2) h) of the Act on Accounting, Sections 3:162 (1), 3:185 (1) of the Civil Code]

Grants to be received can be construed as income when approved by the grantor

Any financial settlement made by the balance sheet preparation date is not a prerequisite for the recognition as other income of grants and benefits received to offset costs (expenses), if, based on the grant contract, the requested financial settlement of the grant submitted by the entity has been approved by the grantor by the balance sheet preparation date. [Section 77 (2) of the Act on Accounting]

Amortisation is not only possible, but mandatory

The amendment makes it clear that in the case of the capitalised costs of completed experimental development and formation and reorganisation, the maximum 5-year ordinary amortisation period, and in the case of goodwill – as long as the asset's useful life cannot be estimated - the minimum 5-year and maximum 10-year ordinary amortisation period defined in the Act on Accounting shall be applied mandatorily; i.e. this is not just an option. [Section 52 (4) of the Act on Accounting]

Settlements in the income statement

The amendment makes it clear that expenses derived from uncollectable or forgiven debts related to purchased receivables and long-term loans granted have to be accounted for under profit or loss on financial transactions. Such types of expense have to be recognised under the expenses on investments if they relate to investments, or under other expenses on financial transactions if they relate to current assets. Expenses recognised under current assets, which are derived from uncollectable and forgiven debts related to receivables that do not qualify as purchased receivables, shall be accounted for under other expenses. [Sections 81 (2) l), (3) b), 85 (1a), b), (3) m), v) of the Act on Accounting]

Disclosure about staff costs in the supplementary notes

Wage contributions do not now have to be disclosed as analysed by staff group in the supplementary notes, but are now analysed by legal title. [Section 91 a) of the Act on Accounting]

Description of line items in the annual report

The amendment has harmonised the references included in the requirements of the Act on Accounting and the descriptions of the line items of the balance sheet and the income statement templates included in the Schedules to the Act. [Schedules 1, 2 to the Act on Accounting]

Other declarations and statements

The content of the corporate governance declaration is expanded to now include information on diversity.

A new requirement is that an enterprise qualifying as a public interest entity above a certain size must disclose a "non-financial statement" in its business report.

These requirements are applicable from financial years beginning in 2017; earlier adoption is not permitted. [Sections 95/B (2) h), 95/C, 134 (5)-(6), 156 (5) of the Act on Accounting]

Detailed rules for previous changes

What is goodwill worth in FX?

According to rules applicable from 2016, goodwill or negative goodwill (hereinafter: "goodwill") can only arise in separate financial statements if the acquisition of the business, permanent establishment or business network involves recognising all the assets and liabilities, item by item. The transitional provisions require that the opening value of the related interest in the 2016 financial year shall be adjusted with the carrying amount of the goodwill which is recognised in the opening balances of the financial year beginning in 2016 and cannot be recognised under the new regulation.

If the goodwill arose in a currency other than the bookkeeping currency, the question would now be to identify what exchange rate should be used to translate the goodwill carried in HUF into the currency in which the related interest is recorded, in order to enable the reclassification. The Act on Accounting provides no guidance on this. However, according to the response to accounting question No. 73/2015 in the December 2015 issue of the "SZAKMA" journal published under the auspices of the Ministry for National Economy, it is justified to translate the goodwill into the currency of the interest at the FX rate valid on 1 January 2016. [Section 177 (46) of the Act on Accounting]

Dividend payable, a row deleted in the income statement

The 2015 comparative data in the balance sheet and income statement of the annual report prepared for financial years beginning in 2016 has to be reclassified in accordance with the new templates for 2016. Yet how should dividends recognised in the 2015 annual report and payable for the 2015 financial year (which could be distributed from either the 2015 after-tax profit or from distributable retained earnings) be included in the 2016 annual report? According to the response to accounting question No. 4/2016 in the January 2016 issue of the "SZAKMA" journal published under the auspices of the Ministry for National Economy, a 2015 dividend cannot be included in the data for the previous year; it should be included under the 2016 data as a decrease in retained earnings and as a dividend liability, since this would be consistent with the rules valid in 2016. However, according to other opinions, it would be more in line with the transitional provisions if the 2015 dividend liability continued to be included in the data for the previous year and, in line with the classification as per the new template, if it were recognised as a decrease in retained earnings. The disadvantage of the latter solution would then be negative retained earnings for companies which fully distributed their previous profits as dividends. [Section 177 (45) of the Act on Accounting]

Can interim dividends be paid from after-tax profit for the current reporting year?

The requirements of the Civil Code effective as of 2016 were modified in a way that, in the case of an interim dividend paid based on an interim balance sheet, the after-tax profit for the current reporting year cannot be taken into account when determining the amount of the interim dividend. However, this is not consistent with the requirements of the Act on Accounting regarding the payment limit for interim dividends. Since interim dividends are paid according to the rules of the Civil Code, when paying out the after-tax profit for the current reporting year as an interim dividend, potential risks derived from the above inconsistency have to be reckoned with. [Sections 3:186, 3:263 of the Civil Code and Section 39 (4) of the Act on Accounting]

Some final words

In addition to summarising the modifications to the Act on Accounting which we deem material, this publication also highlights the weaker and potentially inconsistent points of the new regulations. In this newsletter we did not deal with the amendments to the Act on Accounting which relate to the introduction of IFRS. Neither, due to space constraints, did we present the amendments and new rules in full, so knowledge of the legal regulations is required to fully understand these amendments and new rules. Should you have any questions relating to the content of the newsletter, please contact your tax or accounting adviser, or get in touch with us.

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