

# Question Marks

## Revision of amendments to the Act on Accounting effective from 2016 – autumn delicacies

2015. 4<sup>th</sup> Issue



In [issue 3/2015](#) of our newsletter we reviewed the major amendments to Act C of 2000 on Accounting (“Act on Accounting”), designed to harmonise the Hungarian law with Directive 2013/34/EU (“EU Directive”). This newsletter summarises the main points of the legislation clarifying these new provisions that are not yet in effect. Act CLXXVIII of 2015 containing these new provisions was promulgated on 26 November 2015. The amendments detailed below shall be applied for financial years beginning on or after 1 January 2016; earlier application is not permitted.

### 1. Goodwill and negative goodwill

- a. According to the amendment to the Act on Accounting published in the summer, goodwill or negative goodwill may only arise in separate financial statements if the acquisition involves recognising all the assets and liabilities. Accordingly, the consideration paid upon the acquisition (purchase price) shall be regarded as the cost of the interest. As a result of the transitional provision, the opening carrying amount of the related interest in financial year 2016 shall be adjusted with the carrying amount of the goodwill or negative goodwill which is recognised in the opening balances of the financial year beginning in 2016 and cannot be recognised as per the new regulation.

In this context, the summer amendment did not establish what to do in the following cases:

- the carrying amount of the interest is smaller than the carrying amount of the related negative goodwill;
- no interest is recognised in the books in relation to the goodwill or negative goodwill any longer.

The amendment promulgated in November regulates these cases as well:

- if the negative goodwill exceeds the carrying amount of the interest, the difference remains in the books as negative goodwill.

- goodwill or negative goodwill also remains in the books if the related interest is no longer recognised in the books (e.g. due to transformation).

- b. Pursuant to the amendment of the Act on Accounting published in the summer, goodwill may be amortised over at least 5 years, but no more than 10 years, if its useful life cannot be estimated.

This amendment did not prescribe whether, if at all, ordinary amortisation shall be recognised on goodwill that arose prior to the amendment but remains in the books even after the legislative change, and if so, then what the schedule of amortisation should be. This is clarified by the Act just adopted. Accordingly, enterprises may decide as follows in the case of such assets:

- to continue to apply the requirements on amortisation effective on the day the goodwill was initially recognised, or
  - to adjust the amortisation prospectively in accordance with the new regulations.
- c. Negative goodwill recognised as deferred income may be amortised against other income over a period of at least 5 years but no more than 10 years following the acquisition; this was defined as 5 years or more under the previous legislation.

The amendment published in the summer did not specify how to amortise against other income the negative goodwill that arose prior to the amendment but remains in the books following the legislative change. Following the current clarification, companies also have the choice in this case to:

- continue to apply the relevant rules set forth in previous legislation in this respect, or
- apply the new regulations following the amendment.

[Sections 177 (48)-(50) of the Act on Accounting]

## 2. Dividends due

Based on the summer amendment to the Act on Accounting it was not clear whether the entity receiving dividends may recognise due dividends in the financial year if the resolution on dividends is only made after the reporting date but by the balance sheet preparation date. Uncertainties arose from the simultaneous interpretation of the following two provisions:

- On the one hand, pursuant to the amendment, the amount payable based on the resolution for allocating profit after tax constitutes dividend and profit share received (receivable), if it becomes known by the balance sheet preparation date.
- On the other hand, the amount of dividends received (receivable) that are not yet included in the financial statements for the previous financial year but are accounted for by the balance sheet preparation date in the current reporting year may be taken into account as a factor increasing equity when calculating the dividend payment threshold.

The current amendment, which modifies the first of the above two rules, clarifies this contradiction. According to the amended legislation, the amount payable based on the resolution for allocating profit after tax constitutes dividend and profit share received (receivable), if it becomes known *by the reporting date*. Consequently, enterprises receiving dividends may only recognise due dividends in the financial year in which the relevant resolution was made.

In parallel to this, the date when dividend-related provisions of the Civil Code enter into force has also been harmonised with the effective date of the Act on Accounting.

[Section 84 (1) of the Act on Accounting]

## 3. Simplified annual report

The amendment just announced shortens the time required for switching between a simplified annual report and an annual report. Be it transitioning from a simplified annual report to an annual report or vice versa, the switch takes place/may take place one year earlier than as per prevailing legislation in both cases.

According to the previous regulation, if a company exceeded any two of the three statutory indicators in two consecutive years, or any two indicators were below the threshold in two consecutive years, the switch to the other type of reporting shall/may take place *as of the year after the financial statements for the second year were prepared*, whereas, according to the new legislation, this change shall/may take place **as of the year following the second year**.

[Sections 97 (1)-(2) of the Act on Accounting]

## Some final words

Similarly to our last newsletter, this issue is not intended to raise questions but to summarise new major amendments to the Act on Accounting. Herein we have not dealt with the amendments to the Act on Accounting that relate to the introduction of IFRS, and for reasons of brevity we did not undertake to present amendments and new rules comprehensively, as a full understanding may require knowledge of the legal regulations and the EU Directive. Should you have any questions relating to the legislative amendments, please contact your tax or accounting advisor, or get in touch with us.

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