

## Amendments to Accounting Legislation in November and December 2015

Several accounting regulations were amended in November and December 2015. Certain changes entered into force on 31 December 2015, others on 1 January 2016, and some will become effective on 17 June 2016.

On **31 December 2015**, the following accounting legislation entered into force:

- on 2 December 2015, Decree of the Finance Ministry of the Slovak Republic No. 23054/2002-92 **on the framework for the chart of accounts and accounting procedures for entrepreneurs** was amended (some of these changes entered into force on 31 December 2015 and others became effective on 1 January 2016);
- on 2 December 2015, Decree of the Finance Ministry of the Slovak Republic No. 23377/2014-74 **on financial statements of large accounting entities and public-interest entities** was amended (some of these changes entered into force on 31 December 2015 and others became effective on 1 January 2016).

On **1 January 2016**, the following accounting legislation entered into force:

- on 11 November 2015, **Act No. 431/2001 Coll. on Accounting** was amended by Act No. 423/2015 Coll. on Statutory Audit (some of these changes entered into force on 1 January 2016 and others will become effective on 17 June 2016);
- as stated above, some of the changes apply to the **framework for the chart of accounts and accounting procedures for entrepreneurs** and other changes apply to the **Decree on financial statements of large accounting entities and public-interest entities**;
- on 2 December 2015, Decree of the Finance Ministry of the Slovak Republic No. 23378/2014-74 **on financial statements of small accounting entities** was amended.

On **17 June 2016**, the following accounting legislation will enter into force:

- as stated above, certain changes to the Act on Accounting.

Please note that these are not the only changes to the accounting legislation that will affect financial statements prepared as of 31 December 2015 or a later date. Several accounting regulations were amended during the course of 2014 and 2015, with certain changes entering into force during 2015 (which is why they will have an impact on **financial statements prepared as of 31 December 2015**), others as of 1 January 2016, and some becoming effective as of 1 January 2017. Most of these changes resulted from the need to incorporate new Directive 2013/34/EU on financial statements and were discussed in our previous News.

## A. Changes effective from 31 December 2015

### 1. Decree of the Finance Ministry of the Slovak Republic No. 23054/2002-92 on the framework for the chart of accounts and accounting procedures for entrepreneurs

**Affiliated accounting entities.** Following the introduction of the term "affiliated accounting entities" in the Decree on financial statements of large accounting entities and public-interest entities and the Decree on financial statements of small accounting entities, it was necessary to amend the related provisions of the Accounting Procedures:

- Article 13 (8) (b) on the principles of classification of and accounting for non-current assets;
- Article 14 (23) on the principles of classification of and accounting for securities and ownership interests;
- Article 53, Article 54, and Article 80 on accounting for receivables and liabilities and on accounting for financial income.

In the chart of accounts, the designations of accounts 062, 066, 351, 361, and 471 have been made more specific.

**Accounting for restructuring.** Following an amendment to the Commercial Code of April 2015, the provisions of Article 29 on accounting for restructuring have been amended. According to the **transitional provisions** of Article 86j, the provisions on accounting for restructuring shall be used with respect to the preparation of financial statements as of 31 December 2015, and an accounting entity whose accounting period is a financial year or an accounting entity that prepares interim financial statements may (= optional) also use these provisions with respect to the preparation of financial statements as of a date preceding 31 December 2015 if the financial statements are prepared after 31 December 2015.

**Financial leasing.** In Article 30a, references to the Act on Income Tax have been made more specific.

### 2. Decree of the Finance Ministry of the Slovak Republic No. 23377/2014-74 on financial statements of large accounting entities and public-interest entities

**Related parties.** Pursuant to the new accounting Directive 2013/34/EU, the definition of related parties is based on IAS 24 Related Party Disclosures. Therefore, the definition contained in IAS 24 has been incorporated in this Decree. The definition contained in IAS 24 has been amended in the meantime, which is why the definition contained in this Decree needs to be amended as well. According to Article 5 (2) (b) (7) of the Decree, related parties also include:

- an accounting entity, or any member of the group of which the accounting entity is a part, which provides **key management personnel services** to the reporting accounting entity or to the parent accounting entity of the reporting accounting entity.

**Cash flow statement.** The definition of cash has been made more specific – the term "ekvivalenty peňažnej hotovosti" has been replaced by the term "peňažné ekvivalenty" [in Slovak; the English translation remains the same, i.e., "cash equivalents"] (Article 5 (3) (b) of the Decree). The inclusion of cash flows related to interest, dividends, and other shares of profit (Article X (8) (a) of Appendix No. 1 to the Decree) in the cash flow statement has also been made more specific.

## B. Changes effective from 1 January 2016

### 1. Act on Accounting

**Classification of accounting entities.** Regarding the size groups of accounting entities (micro-accounting entities, small accounting entities, large accounting entities), the provisions of Article 2 (10) of the Act on Accounting have been made more specific. An accounting entity should be classified into a size group on the basis of the fulfillment or non-fulfillment of the conditions for **two preceding** accounting periods. According to the **transitional provisions** of Article 39n (1), an accounting entity whose accounting period is a financial year shall proceed according to Article 2 (10) in the wording effective from 1 January 2016 for the first time in the financial year that begins during the course of 2016.

**Information on expenses incurred with respect to an auditor.** In Article 18 (6) of the Act on Accounting, the classification of information disclosed in the notes to financial statements has been made more specific. Expenses incurred with respect to an auditor should be broken down as follows:

- audit of the financial statements;
- assurance services other than an audit of financial statements;
- tax advisory; and
- other non-audit services.

The item "related audit services" has been deleted as a separate item and is now included in "other non-audit services." See also Article IV (3) of Appendix No. 1 (Content of the Notes to Financial Statements) to the Decree on financial statements of large accounting entities and public-interest entities.

**Exemption from the obligation to prepare consolidated financial statements.** The provisions of Article 22 (11) have been made more specific regarding when a parent accounting entity may be exempted from this obligation for the following reasons:

- it is a subsidiary accounting entity at the same time, i.e., it is an intermediate parent company within a group;
- the group has not exceeded the criteria of size.

This ensures consistency with the Directive and makes more specific the provisions introduced by the amendment to the Act on Accounting of 6 May 2015, which were to become effective on 1 January 2016 (this means that the amendment made the provisions of 6 May 2015 more specific before they entered into force). According to the **transitional provisions** of Article 39n (2) and (3), a parent accounting entity whose accounting period is:

- a **calendar** year shall proceed according to Article 22 (11) in the wording effective from 1 January 2016 with respect to the preparation of consolidated financial statements for the accounting period ending on 31 December 2016;
- a **financial** year shall proceed according to Article 22 (11) in the wording effective from 1 January 2016 with respect to the preparation of consolidated financial statements for an accounting period ending during the course of 2017.

## 2. Decree of the Finance Ministry of the Slovak Republic No. 23054/2002-92 on the framework for the chart of accounts and accounting procedures for entrepreneurs

**Participating interest.** Following the changes to Article 2 (4) (m) and Article 27 (1) of the Act on Accounting regarding the introduction of the term "participating interest," it was necessary to also incorporate these changes in the Accounting Procedures:

- Article 10 (18) on deferred tax;
- Article 14 (2), (3), (7), (11), (12) and (22) on the principles of classification of and accounting for securities and ownership interests;
- Article 48 (1) on debtors and creditors;
- Article 52 (11) on receivables and liabilities related to taxes and subsidies;
- Article 80 (1) on financial income.

**Fair value.** In connection with the reworked provisions of the Act on Accounting regarding fair value (Article 27 of the Act on Accounting), the following provisions of accounting procedures have been made more specific:

- Article 16 (28) on the valuation of derivatives;
- Article 26 on accounting for a **merger, amalgamation into a separate accounting entity, and demerger**. Since the new provisions of Article 27 of the Act on fair value focus on the **selling** price of assets (exit price; although a general definition of fair value is still missing in the Act, similarly to, for example, IFRS 13 Fair Value Measurement, the new provisions of Article 27 show a visible tendency to consider the exit price to be fair value) more than was the case in the previous provisions, when accounting for a merger, amalgamation into a separate accounting entity, and demerger, the difference between the lower fair value of an asset and the higher carrying value of the asset should not be accounted for as a value adjustment, but should instead be recorded in account 416 – *Differences from revaluation in the event of a merger, amalgamation into a separate accounting entity or demerger*, i.e., with no impact on net profit/loss. According to the **transitional provisions** of Article 86k, an accounting entity whose accounting period is a financial year shall account in this manner in the financial year beginning during the course of 2016.

**Replacement cost.** In connection with the **discontinuation** of the valuation of assets at their replacement cost, which has been replaced by fair value (Article 25 of the Act on Accounting), the following accounting procedures have been made more specific:

- Article 21 (1) and (2) on the valuation of non-current intangible assets and property, plant and equipment newly identified during reconciliation procedures;
- Article 30b on emission quotas;
- Article 44 (8) on the valuation of breed animals and growth of animals; in contrast to the previous two cases, these should not be valued at their fair value, but instead at their conversion cost.

**Act on Sports, sponsorship.** On the basis of new Act No. 440/2015 Coll. on Sports, accounting for so-called "sponsorship," i.e., an entitlement to a monetary and non-monetary supply on the basis of a concluded agreement on sports sponsorship, has been amended (Article 52b of the Accounting Procedures).

- An entitlement to sponsorship shall be debited to account 347 – *Other subsidies* with a corresponding credit entry in account 648 – *Other operating income* or with a corresponding credit entry in account 384 – *Deferred income*.
- Sponsorship provided shall be debited to account 548 – *Other operating expenses*. It should be accrued/deferred if there is a reason for doing so.

### 3. Decree of the Finance Ministry of the Slovak Republic No. 23377/2014-74 on financial statements of large accounting entities and public-interest entities

**Participating interest.** Following the changes to Article 2 (4) (m) of the Act on Accounting regarding the introduction of the term "participating interest," it was necessary to also incorporate these changes in this Decree (Article 5 (1)):

- the definition of a subsidiary accounting entity has been deleted, because it is contained in Article 22 of the Act on Accounting;
- the definition of an **associated accounting entity** has been reworked (in accordance with Article 2 (13) of Directive 2013/34/EU): an associated accounting entity means an accounting entity in which another accounting entity has a **participating interest** according to Article 2 (4) (m) of the Act and over whose operating and financial activities that other accounting entity exercises **significant influence**; an accounting entity is presumed to exercise a significant influence over another accounting entity where it has a minimum of 20 percent of the shareholders' or members' voting rights in that other accounting entity.

**Modification of information for the preceding accounting period.** According to Article II (2) of Appendix No. 1 (Content of the Notes to Financial Statements) to this Decree, if the figures for the preceding accounting period in the individual parts of the financial statements are not **comparable** owing to a **change in the accounting principles and accounting policies**, an explanation of the incomparable figures shall be provided in the notes to the financial statements. This means that the figures for the preceding accounting period should not be modified in the balance sheet and income statement.

- An **exemption** from this provision has now been introduced. According to Article 5 (4), if an accounting entity did not prepare its financial statements as a **large** accounting entity in the preceding accounting period (i.e., it prepared its financial statements as a small accounting entity or a micro-accounting entity), it must (= obligatory) modify the figures for the preceding accounting period in the balance sheet (columns 3 and 5) and in the income statement (column 2).
  - o This will make the figures for the current accounting period and the preceding accounting period presented in the balance sheet and income statement comparable **directly** in the balance sheet and income statement. It will not be necessary to disclose the impact of this change in the notes to the financial statements.
  - o According to Article II (2), it should only be stated in the notes to the financial statements that the figures for the preceding accounting period have been modified.

#### 4. Decree of the Finance Ministry of the Slovak Republic No. 23378/2014-74 on financial statements of small accounting entities

The changes are **analogical** to those concerning financial statements of **large** accounting entities and public-interest entities (see above):

- deletion of the definition of a subsidiary accounting entity;
- mandatory modification of the figures for the preceding accounting period in the balance sheet and income statement.

In contrast to the aforementioned Decree, the definition of an **associated** accounting entity has been deleted from the Decree on financial statements of small accounting entities without replacement.

### C. Changes effective from 17 June 2016

These changes apply solely to the **Act on Accounting**.

They are related to new Act No. 423/2015 Coll. on Statutory Audit, where all provisions concerning statutory audit will enter into force on 17 June 2016. This is the date by which Member States are required to incorporate changes to Directive No. 2006/43/EC on statutory audit (these changes to the Directive were adopted on 16 April 2014), as well as the date when Regulation No. 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities will begin to apply.

As of 17 June 2016, the existing Act No. 540/2007 Coll. on Auditors will be repealed.

**Audit committee.** The obligation to establish an audit committee, its composition and members, tasks etc. are currently specified in Article 19a of the Act on Accounting. As of 17 June 2016, these provisions will be repealed, and the provisions on an audit committee contained in Article 34 of Act No. 423/2015 Coll. on Statutory Audit will enter into force. In other words, as of 17 June 2016, an audit committee will no longer be regulated by the Act on Accounting, but instead by the Act on Statutory Audit.

**Sanctions.** In connection with the repealing of the provisions on an audit committee in the Act on Accounting, sanctions related to this committee as referred to in Article 38 of the Act on Accounting will also be repealed and will be imposed according to the Act on Statutory Audit. According to the **transitional provisions** of Article 39o of the Act on Accounting, proceedings according to Article 38 (1) (f) that commenced prior to 17 June 2016 shall be subject to the legislation effective until 16 June 2016.

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