

News 2018/01

Accounting Advisory, KPMG in Slovakia
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Amendments to the Accounting Procedures for Entrepreneurs and Decrees on Financial Statements of Entrepreneurs as of 1 January 2018

Amendments to several accounting regulations for entrepreneurs – the Accounting Procedures for Entrepreneurs and decrees on financial statements of entrepreneurs – were adopted in December 2017. Most of these changes follow up on amendments to the Commercial Code concerning a capital fund from contributions from shareholders/partners (accounting legislation refers to the term "other capital funds") introduced by Act No. 264/2017 Coll. of 12 October 2017 amending Act No. 513/1991 Coll. Commercial Code as amended, as well as some other laws.

- Information on amendments to the Commercial Code and related changes to Act No. 431/2002 Coll. on Accounting as amended (hereafter referred to as the "Act on Accounting") was provided in News 2017/01.
- Afterwards, the Act on Accounting was changed on the basis of a separate amendment; we informed you thereof in News 2017/02.
- Consequently, we updated our original News in News 2017/03 concerning deadlines for preparation, presentation, audit, review, approval, filing and publication of financial statements and an annual report.

Now it is time for lower-level legislation, in which the aforementioned changes had to be reflected, namely:

- Decree of the Finance Ministry of the Slovak Republic No. 23054/2002-92 of 16 December 2002 laying down details of the accounting procedures and the framework for the chart of accounts for entrepreneurs maintaining accounts under the system of double entry bookkeeping as amended (hereafter referred to as the "Accounting Procedures for Entrepreneurs" or "Accounting Procedures") was amended by Decree of the Finance Ministry of the Slovak Republic No. MF/14776/2017-14 of 6 December 2017;
- Decree of the Finance Ministry of the Slovak Republic No. MF/23377/2014-74 of 3 December 2014 laying down details of individual financial statements and the extent of data contained in individual financial statements to be published by large accounting entities and public-interest entities as amended (hereafter referred to as the "Decree on Financial Statements of Large Accounting Entities and Public-Interest Entities") was amended by Decree of the Finance Ministry of the Slovak Republic No. MF/14770/2017-14 of 6 December 2017;
- Decree of the Finance Ministry of the Slovak Republic No. MF/23378/2014-74 of 3 December 2014 laying down details of individual financial statements and the extent of data contained in individual financial statements to be published by small accounting entities as amended (hereafter referred to as the "Decree on Financial Statements of Small Accounting Entities") was amended by Decree of the Finance Ministry of the Slovak Republic No. MF/14774/2017-14 of 6 December 2017;
- Decree of the Finance Ministry of the Slovak Republic No. MF/15464/2013-74 of 11 December 2013 laying down details of the structure, description and content of items of individual financial statements and the extent of data contained in individual financial statements to be published by micro-accounting entities as amended (hereafter referred to as the "Decree on Financial Statements of Micro-Accounting Entities") was amended by Decree of the Finance Ministry of the Slovak Republic No. MF/14775/2017-14 of 6 December 2017.

Amendments to the Accounting Procedures for Entrepreneurs

Description	Previous legislation	New legislation	Substance of change
Recognition of a capital fund from contributions	<p>As stated in News2017/01, the creation of other capital funds has been regulated by accounting legislation since 1993; their use is not regulated. The current wording of Article 59 (6) of the Accounting Procedures for Entrepreneurs is as follows: Account 413 - <i>Other capital funds</i> shall be used to account for other monetary capital funds and non-monetary capital funds whose creation does not result in an increase in an accounting entity's share capital and for which no separate main account has been created within the aforementioned accounts of this account group. Assets received from partners free of charge and members' shares in cooperative housing associations shall primarily be credited to this account.</p> <p>As can be seen from the above, these contributions are referred to as "funds" for the purposes of accounting legislation.</p> <p>By analogy with contributions to share capital, an increase in other capital funds (equity, own resources) should be recognized at the time of the assumption of a liability to pay a contribution, rather than when it is paid. See the provisions of Article 2 of the Accounting Procedures for Entrepreneurs regulating the date of an accounting transaction (date of establishment of a receivable, date of establishment of a liability).</p> <p>The contributor should make the following accounting entries at the time when the contributor assumes the liability to pay a contribution to other capital funds:</p>	<p>As stated in News 2017/01, a new provision, Article 28 (5), has been added to the Act on Accounting, effective from 1 January 2018: (5) On the basis of payment of contributions to a capital fund from contributions, the company and the partner or shareholder shall account for the creation of a capital fund from contributions pursuant to special legislation. The partner or shareholder shall account for contributions paid to the capital fund from contributions as part of the valuation of a security or ownership interest in share capital.</p> <p>Consequently, paragraph 3 has been added to Article 2 of the Accounting Procedures for Entrepreneurs regarding the date of an accounting transaction: In respect of a contribution to a capital fund from contributions, the date of an accounting transaction shall be the date of payment of the contribution; in respect of a contribution in kind, the date of payment shall be the date of receipt of the contribution by the company; and for the shareholder or partner, it shall be the date of transfer of the contribution to the company.</p>	<p>In accordance with the new provisions of the Commercial Code concerning a capital fund from contributions, the creation of a capital fund from contributions will be recognized only after this fund is paid, and not when a receivable from a partner arises for the company/when the partner assumes the liability related to this contribution.</p> <p>In the period between</p> <ul style="list-style-type: none"> - the establishment of the company's receivable from the partner/the establishment of the partner's liability to the company, and - the payment of this contribution, the company/partner will (apparently) present these receivables/liabilities only in off-balance sheet accounts, but not in the balance sheet. <p>Effective date of Article 28 (5) of the Act on Accounting: According to Article II of Act No. 264/2017, these provisions shall enter into force on 1 January 2018.</p> <p>Effective date of Article 2 (3) of the Accounting Procedures for Entrepreneurs: According to Article II of Decree No. MF/14776/2017-74, these provisions shall enter into force on 1 January 2018.</p>

Description	Previous legislation	New legislation	Substance of change
	<ul style="list-style-type: none"> - on the debit side: an increase in assets (financial investment, i.e., non-current financial assets), with a corresponding entry; - on the credit side: an increase in liabilities (liability to pay a contribution), <p>and at the time when the contribution is paid:</p> <ul style="list-style-type: none"> - on the debit side: a reduction in liabilities (reduction in the liability to pay this contribution), - on the credit side: a reduction in assets (a decrease in the asset that was the subject of the contribution). <p>The receiver of the contribution should recognize – by way of a mirror image of the accounting entries made by the contributor - at the time when a receivable from the contributor arises for the receiver:</p> <ul style="list-style-type: none"> - on the debit side: an increase in assets (receivable from the contributor), with a corresponding entry; - on the credit side: an increase in equity (other capital funds), <p>and at the time when the contribution is paid:</p> <ul style="list-style-type: none"> - on the debit side: an increase in assets (receiving the asset that is the subject of the contribution), - on the credit side: a reduction in assets (reduction of a receivable from the contributor). 		

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<p>Accounting for a partner's receivable and a company's liability regarding the payment of a settlement share</p>	<p>A partner shall record a receivable from a company regarding the payment of a settlement share in account 378 – <i>Other receivables</i> (Article 25 (3) and (5) of the Accounting Procedures).</p> <p>A company shall record a liability to pay a settlement share to a partner in account 365 – <i>Other liabilities to partners</i> (Article 25 (4) of the Accounting Procedures).</p>	<p>Accounting for a partner's receivable remains unchanged.</p> <p>A company's liability to a partner will be recorded in account 361 – <i>Liabilities to affiliated accounting entities and accounting entities within a participating interest</i> or in account 365 – <i>Other liabilities to partners</i> Article 25 (4) of the Accounting Procedures).</p>	<p>Accounting for a company's liability has been made more specific.</p> <p>Effective date. These provisions entered into force on 1 January 2018.</p>
<p>Accounting for a partner's receivable from a company regarding reduction of share capital</p>	<p>Such cases are not specifically regulated.</p>	<p>Joint stock company. According to Article 25 (3) of the Accounting Procedures, an accounting entity that is a shareholder shall account for its receivable from a joint stock company regarding a decrease in share capital owing to redistribution among shareholders in the amount of the contribution to share capital, namely by means of a debit entry in account 378 - <i>Other receivables</i> and a corresponding credit entry in the relevant account of account group 06 – Non-current financial assets.</p> <p>Limited liability company. According to Article 25 (5), an accounting entity that is a partner in a limited liability company shall account for its receivable from the limited liability company regarding a decrease in share capital owing to redistribution among partners in the amount of the contribution to share capital, namely by means of a debit entry in account 378 – <i>Other receivables</i> and a corresponding credit entry in the relevant account of account group 06 – Non-current financial assets.</p>	<p>Accounting for a partner's claim from a company regarding the payment of an amount related to a decrease in the company's share capital (the Commercial Code refers to the term "redistribution" among shareholders) has not been specifically regulated up until now. A partner accounted for a receivable from the company, but, in general, it was possible to make a corresponding entry as either:</p> <ul style="list-style-type: none"> - a reduction in a financial investment or - income. <p>In practice, a partner accounted for its receivable along with a reduction in a financial investment, which was explained by referring to the fact that the partner was refunded part of the amount that the partner contributed to the company and/or paid to the previous partner. This means that the partner was refunded part of the amount included in the valuation of the partner's financial investment in the company.</p> <p>Following the amendment, it is apparent from the term "in the amount of the contribution to share capital" that this procedure – accounting for a reduction in a financial investment – will be applied in the case of a partner who has made a contribution to share capital in the past. However, it is not clear</p>

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			<p>whether this procedure will also be applied to a partner who became a partner by acquiring their ownership interest in the company from another partner, for example, by means of purchase, rather than by making a contribution.</p> <p>Effective date. These provisions entered into force on 1 January 2018.</p>
<p>Accounting in an accounting entity being wound up without liquidation</p>	<p>If a company is wound up without liquidation, i.e., in the case of:</p> <ul style="list-style-type: none"> - merger $A + B = A$, - amalgamation into a separate accounting entity $A + B = C$, - demerger $A = B + C$, <p>as of the date preceding the decisive date, the company being wound up shall record the differences between the carrying value of assets and liabilities and their fair value in account 416 – <i>Differences from revaluation of assets and liabilities</i> in its extraordinary financial statements. It occurs in practice that the fair value of assets is lower than their carrying value, which leads to the question of whether a value adjustment in the amount of this difference should be created or whether this difference should be recorded in account 416.</p>	<p>Article 26 (1) (a) of the Accounting Procedures specifies that the difference between the lower fair value and the higher carrying value shall be recorded as a value adjustment, except for cases where impairment did not occur according to Article 18.</p> <p>This means that a value adjustment should not be created if the estimated future economic benefits from this asset do not decrease.</p>	<p>In our opinion, this procedure already ensued from the provisions of Article 26 (1) (a) of the Accounting Procedures up until now and the amendment has only made it more specific.</p> <p>The differences between the carrying value and the fair value should be determined in two steps. First, all value adjustments, depreciation, amortization and write-offs, provisions, accruals/deferrals, exchange rate differences etc. should be recorded in such a way as if a merger / amalgamation into a separate accounting entity / demerger were not to occur. Afterwards, in the second step, the carrying value determined in this way should be compared with the fair value and the differences should be recorded in account 416.</p> <p>In other words, a value adjustment should be created if it were to be created also in the case where a merger / amalgamation into a separate accounting entity / demerger were not to occur.</p> <p>Effective date. These provisions entered into force on 1 January 2018.</p>

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<p>Accounting for contributions in kind – acknowledged amount and amount of contributions</p> <p>The term "acknowledged amount" referred to in accounting legislation (Article 27a of the Accounting Procedures) is important both for the contributor and the receiver of a contribution.</p> <p>Regarding all contributions in kind (a contribution of individual asset items, as well as a contribution of a business/part of a business), the contributor shall:</p> <ul style="list-style-type: none"> - recognize the difference between the carrying value and the acknowledged amount as an expense or income (depending on its nature). <p>Regarding a contribution in kind of a business or part of a business, the receiver of the contribution shall:</p> <ul style="list-style-type: none"> - recognize the difference between the fair value and the acknowledged amount as goodwill or negative goodwill (Article 27a, Article 37 (10) of the Accounting Procedures). <p>Article 27a (2) of the Accounting Procedures defines the acknowledged amount as the amount of the contribution in kind acknowledged with respect to the contribution by a partner. A footnote refers to Article 59 (3) of Commercial Code regulating solely contributions to share capital.</p> <p>There are cases in practice where not only a contribution to share capital is made, but, at the same time, part of the amount is also "contributed" to the legal reserve fund, other capital funds, represents share premium etc. This leads to uncertainty as to whether these amounts may be recognized as the acknowledged amount (by</p>	<p>The provisions of Article 27a of the Accounting Procedures on accounting for contributions in kind have been reworked, and the provisions of Article 37 (10) of the Accounting Procedures on the calculation of goodwill and negative goodwill have been added.</p> <p>The provisions of Article 27a of the Accounting Procedures regulate a contribution of:</p> <ul style="list-style-type: none"> - a business or part of a business (paragraphs 1 to 3), and - separate asset items (paragraphs 4 to 6), <p>both for the contributor and the receiver of the contribution.</p>	<p>The term "acknowledged amount" continues to exist, and its content is the same as has been the case up until now.</p> <p>However, so-called other contributions shall be added to the acknowledged amount, with the former being defined as:</p> <ul style="list-style-type: none"> - the amount of a contribution paid to a capital fund from contributions (the term "other capital funds" is used in accounting), - allocation to the reserve fund, - share premium. <p>This is conditional upon being agreed upon in the articles of association, memorandum of association or deed of foundation (Article 27a (2) of the Accounting Procedures).</p> <p>This means that not only the acknowledged amount, but also the amount of "other contributions":</p> <ul style="list-style-type: none"> - should be taken into consideration when goodwill and negative goodwill is calculated (by the receiver of the contribution), - forms part of the valuation of a financial investment (by the contributor). <p>An opinion was heard in practice (which we think was incorrect) that the contributor should not record "other contributions" in the same financial investment account as the account used to account for a contribution to share capital (for example, 061, 062, 063) and that they should instead be recorded in account 069 – <i>Other non-current financial assets</i>. Following the amendment, it is clear that they should be recorded in the same account as the account</p>	

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	<p>analogy with a contribution to share capital) and, consequently,</p> <ul style="list-style-type: none"> - whether they should be taken into consideration when goodwill or negative goodwill is calculated (by the receiver of the contribution), - whether they form part of the valuation of a financial investment (by the contributor). 		<p>used to account for a contribution to share capital (for example, 061, 062, 063) and separate sub-accounts should be created for these contributions (Article 27a (3) and (5) of the Accounting Procedures).</p> <p>This has removed uncertainty regarding accounting for:</p> <ul style="list-style-type: none"> - share premium, - the legal reserve fund, - a capital fund from contributions (other capital funds). <p>Effective date. These provisions entered into force on 1 January 2018.</p>
Accounting for a capital fund from contributions - creation	<p>The creation of other capital funds is regulated by Article 59 (6): Account 413 - <i>Other capital funds</i> shall be used to account for other monetary and non-monetary capital funds whose creation does not result in an increase in an accounting entity's share capital and for which no separate main account has been created within the aforementioned accounts of this account group. Assets received from partners free of charge and members' shares in cooperative housing associations shall primarily be credited to this account.</p> <p>There are no other provisions to specifically regulate other capital funds.</p>	<p>The provisions of Article 27b on accounting for a capital fund from contributions are new.</p> <p>Paragraphs 1 to 3 regulate its creation, and paragraphs 4 to 6 regulate its use.</p>	<p>The creation of other capital funds is regulated in more detail.</p> <p>Following the new provisions of Article 217a of the Commercial Code, Article 28 (5) of the Act on Accounting, and Article 2 (3) of the Accounting Procedures, a capital fund from contributions should be accounted for only after it is paid.</p> <p>A shareholder (partner) will record its liability to pay a contribution to the company in account 367 – <i>Liabilities for unpaid subscribed securities and contributions</i>, but only when the contribution is paid.</p> <p>By way of a mirror image, the receiver of the contribution will record its receivable from the shareholder/partner in account 353 – <i>Unpaid share capital</i> (with a corresponding entry in account 413 – <i>Other capital funds</i>), but only when the contribution is paid.</p>

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			<p>The hitherto provisions of Article 59 (6) of the Accounting Procedures have been amended as well: Account 413 – <i>Other capital funds</i> shall be used to account for monetary contributions and non-monetary contributions to a capital fund from contributions. For example, assets acquired from shareholders and partners free of charge, received shares in cooperative housing associations, and issued participating certificates in cooperatives shall be credited to this account.</p> <p>Effective date. According to Article II, these changes shall enter into force on 1 January 2018. According to the transitional provisions of Article 86l, the provisions of Article 59 (6) on accounting in account 413 – <i>Other capital funds</i> shall be used for the first time with respect to accounting transactions beginning after 1 January 2018.</p>
Accounting for a capital fund from contributions - use	<p>The use of other capital funds is not specifically regulated in accounting legislation.</p>	<p>According to Article 217a (2) and Article 123 (2) and (3) of the Commercial Code, a capital fund from contributions may only be used for the following:</p> <ul style="list-style-type: none"> - redistribution among shareholders (partners), - an increase in share capital. <p>The use of a capital fund from contributions is regulated by Article 27b (4) to (6) of the Accounting Procedures, which only regulates its use for the purpose of redistribution among shareholders/partners.</p> <p>On the basis of a decision of the general meeting, a company shall make debit entries in account 413 - <i>Other capital funds</i> and credit entries in the</p>	<p>The Decree distinguishes between a shareholder (partner) who has paid a contribution and a shareholder (partner) who has not paid a contribution.</p> <p>In the case of a shareholder (partner) who has paid a contribution, their contribution paid in the past has been recognized as part of their financial investment, which is why the redistribution of this contribution (from their viewpoint, this is a refund of the contribution paid by them in the past) shall be recorded as a reduction of a financial investment.</p> <p>A shareholder (partner) who has not paid a contribution shall always account for income. However, the Decree does not distinguish between two different situations:</p>

Description	Previous legislation	New legislation	Substance of change
		<p>relevant liability account according to Article 54 (1) and (3).</p> <p>A shareholder (partner) shall also make accounting entries on the basis of a decision of the general meeting. It is distinguished between a shareholder (partner) who has paid a contribution and a shareholder (partner) who has not paid a contribution.</p> <ul style="list-style-type: none"> - A shareholder (partner) who has paid a contribution shall reduce their financial investment, with a corresponding entry in the account of receivables from the company. If the amount of the contribution exceeds the amount of the financial investment, the difference shall be recorded as income in account 668 – <i>Other financial income</i>. - A shareholder (partner) who has not paid a contribution shall not account for a reduction of the financial investment, but should always record income in account 668 – <i>Other financial income</i>, with a corresponding entry in the account of receivables from the company. 	<ul style="list-style-type: none"> - redistribution of a contribution paid by other shareholders (partners) in the past, where this contribution (part thereof) is now also redistributed to a shareholder (partner) who has not paid it, - and a situation where an existing shareholder (partner) purchased shares (ownership interest) from a shareholder (partner) who has paid this contribution, and this contribution was reflected in the price paid by the existing shareholder (partner) for the shares (ownership interest). <p>Both situations should be accounted for in the same manner - as income.</p> <p>Effective date. These changes entered into force on 1 January 2018.</p>
Software development costs	<p>According to Article 37 of the Accounting Procedures, costs of creation of internally generated non-current intangible assets shall not be capitalized. The only exceptions are:</p> <ul style="list-style-type: none"> - software, - development costs. 	<p>It has been added that costs of internally generated software shall include software development costs (Article 37 (6) (b) of the Accounting Procedures).</p>	<p>Effective date. These changes entered into force on 1 January 2018.</p>

Amendments to Decrees on Financial Statements

Description	Previous legislation	New legislation	Substance of change
Capital fund from contributions	It is required to disclose information on the accounting entity's equity in the notes to financial statements.	<p>It is required to disclose information as to whether the accounting entity has created a capital fund from contributions; large accounting entities and public-interest entities are required to include:</p> <ul style="list-style-type: none"> - a description of the creation of a capital fund from contributions, especially the number of contributions and the individual amounts of contributions; - a description of the impact of the creation of a capital fund from contributions on the distribution of net profit or other own resources of the company to its shareholders or partners, as well as on an increase in share capital. 	<p>These changes apply to all three decrees on financial statements – for micro-accounting entities, small accounting entities, and large accounting entities and public-interest entities.</p> <p>Effective date. These changes entered into force on 1 January 2018.</p>
Related parties – more specific definition (only the Decree on Financial Statements of Large Accounting Entities and Public-Interest Entities)	Related parties are defined in Article 5 (2) of the Decree. The definition has been incorporated from IAS 24 Related Party Disclosures (this is required by Article 2 of Accounting Directive No. 2013/34/EU).	<p>It is specified in Article 5 (1) (a) that control shall be calculated according to Article 22 (3) to (7) of the Act of Accounting.</p> <p>It is specified in Article 5 (2) (a) that this applies to a sole trader.</p> <p>In Article 5 (2) (b):</p> <ul style="list-style-type: none"> - a typo has been removed from point 3 (with no influence on English translation), - in point 5, an incorrect translation from English has been corrected (the word "employees" has been replaced by the word "employers"), - point 8 has been added, referring to a situation where a sole trader has significant influence over another 	Regarding control , the hitherto provisions have not been changed, but have only been made more specific : not only paragraph 3 of Article 22 of the Act on Accounting, but also paragraphs 4 to 7, should be applied (the latter concerning subsidiary accounting entities). This is because the provisions of Article 22 primarily apply to consolidated financial statements and are limited to a certain legal form of accounting entities. This might have led to an (incorrect) conclusion that – in contrast to assessing control for the purpose of consolidated financial statements – when assessing control for the purpose of the existence of related parties , accounting entities controlled by sole traders were not considered related parties; in our opinion, however, this assessment would lead to an (incorrect) conclusion that the situation referred to in

Description	Previous legislation	New legislation	Substance of change
		<p>accounting entity or is a member of the key management personnel.</p>	<p>the provisions of Article 5 (2) (a) (1) (and, by analogy, Article 5 (2) (a) (2)) could never arise. The amendment has removed these doubts.</p> <p>Another specification (similarly to the above, the hitherto provisions have not been changed, but have only been made more specific) concerns the provisions of Article 5 (2). According to Article 5 (2), a related party is:</p> <ul style="list-style-type: none"> - a person or a close member of that person's family (paragraph 2 (a)), - an accounting entity other than the reporting accounting entity (paragraph 2 (b)). <p>It has been made more specific that the term "person" means a "sole trader." Doubts sometimes arise in practice as to whether a sole trader should be considered a "person" (following the amendment, they are referred to as a "sole trader") or "other accounting entity." We are of the opinion that a sole trader should be considered both a "person" and "other accounting entity", because a sole trader is both.</p> <p>Effective date. These changes entered into force on 1 January 2018.</p>

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