

April 2009

Amendments to Slovak accounting legislation

Two amendments to Slovak accounting legislation entered into force in March 2009:

- amendment to the Act on Accounting effective from 1 March 2009; and
- amendment to the Accounting Procedures for Entrepreneurs effective from 20 March 2009.

We would like to draw your attention to the most important changes to the accounting legislation in this Newsflash.

ACT ON ACCOUNTING

The amendment to the Act on Accounting has introduced several important changes effective from 1 March 2009.

New conditions for the audit of financial statements by an auditor (Article 19 (1) (a) of the Act on Accounting)

Ordinary individual financial statements and extraordinary financial statements must be audited by an auditor if the accounting entity:

- is a company, except for a joint stock company, and is required to create share capital, or a cooperative, if:
 - as of the balance sheet date and
 - for the preceding accounting period
- they met at least two of the following conditions:
 - the total gross amount of its assets exceeded 1,000,000 euros, (prior to the amendment: 663,878.38 euros)
 - its net turnover exceeded 2,000,000 euros (prior to the amendment: 1,327,756.76 euros); net turnover being defined as:
 - income from the sale of products, merchandise, and services, and
 - other income related to ordinary activities of the accounting entity after deducting discounts
 - its average number of employees exceeded 30 during one accounting period (prior to the amendment: 20).

Changes: The new criteria of size for an audit must be met for two accounting periods, namely the accounting period for which the financial statements are prepared and the preceding accounting period. Until now, these conditions had to be met only in the year preceding the year for which these financial statements were audited [understand prepared].

This will mean in practice that if a company prepares financial statements, for example, as of 31 December 2009, it is necessary to consider the criteria of size for the accounting period ending on:

- 31 December 2009 and
- 31 December 2008.

If the criteria of size are met, the company must have its financial statements for the accounting period ending on **31 December 2009** audited by an auditor.

The definition of net turnover has been extended. When assessing the obligation to have financial statements audited by an auditor, income from ordinary business activities of the company is taken into consideration. This is because in certain cases, a company earns its main income, accounted for as financial income, from the provision of services.

Effective date: The new conditions for assessing whether a financial statement audit is obligatory shall be applied to the assessment of the obligation to have financial statements prepared as of 1 March 2009 or later, i.e. after the effective date of this Act (after 1 March 2009).

Note: No criteria of size have been defined for the audit of financial statements of joint stock companies. The obligation regarding audit continues to depend on the legal form of the company. Each joint stock company must have its financial statements audited by an auditor.

New limits for the exemption from the obligation to prepare consolidated financial statements (Article 22 (10) (a) and (b) of the Act on Accounting)

The obligation to prepare consolidated financial statements and a consolidated annual report in the subsequent accounting period will apply to the parent company if at least two of the following conditions were met in each of the two preceding accounting periods:

- total net assets of the parent company and subsidiaries exceed 17,000,000 euros (prior to the amendment: 11,617,871.61 euros)
- net turnover of the parent company and subsidiaries exceeds 34,000,000 euros (prior to the amendment: 23,235,743.21 euros); net turnover being defined as revenue from the sale of products, merchandise, and services provided
- the average number of employees of the parent company and subsidiaries exceeded 250 during the accounting period – this criterion has not been changed.

Effective date: The new conditions shall be applied to the assessment of the obligation to prepare consolidated financial statements as of 1 March 2009 or later, i.e. after the effective date of this Act (after 1 March 2009).

Net turnover

Following the amendment to the Act on Accounting, net turnover is defined as follows:

For the purpose of determining the obligation to have financial statements audited by an auditor (Article 19 (1) (a)(2) of the Act on Accounting):

- net turnover is defined as income from the sale of products, merchandise, services, and other income related to ordinary activities of the accounting entity after deducting discounts.

For the purpose of assessing the obligation to prepare consolidated financial statements (Article 22 (10) (b) of the Act on Accounting):

- net turnover is defined as revenue from the sale of products, merchandise, and services provided.

For the purpose of assessing the obligation to prepare individual financial statements according to the International Financial Reporting Standards as adopted by the European Union (Article 17a (2) (b) of the Act on Accounting):

- net turnover is not defined.

The question is which definition should be used to assess net turnover according to Article 17a.

According to the statement of the Ministry of Finance,

- turnover defined in Article 19 (for the purpose of audit) and Article 17a (for financial statements according to IFRS/EU) relates to information presented in individual financial statements, which is why the definition of turnover specified in Article 19 (1) (a) (2) of the Act on Accounting (i.e. the new, extended definition) shall be used
- turnover defined in Article 22 (10) (b) of the Act on Accounting relates to consolidated financial statements and shall only be used to determine the obligation to prepare consolidated financial statements.

Incorporation expenses (Article 28 (4) of the Act on Accounting)

The obligation to capitalize incorporation expenses as non-current intangible assets has been repealed. Expenses related to the establishment of an accounting entity shall be recorded in the relevant expense accounts in the first accounting period.

The method of taking incorporation expenses out of the accounting books is regulated by an amendment to the Accounting Procedures.

Effective date: 1 March 2009

ACCOUNTING PROCEDURES

The amendment to the Act on Accounting is followed by an amendment to the Accounting Procedures, which primarily introduces the following changes:

Accounting for the acquisition of non-current assets (Article 33 (1) of the Accounting Procedures)

The amendment to the Accounting Procedures stipulates that putting an asset into use also includes the issuance of permission on the transitional use of a structure or a decision on the temporary use of

a structure for test operation according to the Construction Act.

This means that such a structure may be transferred from account 042 – Acquisition of property, plant and equipment account 021 – Structures and depreciated.

Change: Prior to the amendment, a structure in respect of which permission on the transitional use of a structure or a decision on the temporary use of the structure has been issued could not be put into use (i.e. it could not be recorded in account 021 – Structures) and had to be recorded instead in account 042 – Acquisition of property, plant and equipment. Impairment of a structure was accounted for by creating a value adjustment to the structure.

A value adjustment created with respect to the issuance of permission on the transitional use of a structure or a decision on the temporary use of the structure shall be accounted for as follows:

- Debit side of account 094 – Value adjustment to property, plant and equipment under construction
- Credit side of account 081 – Accumulated depreciation of structures

In an accounting period ending after 28 February 2009, impairment of an asset by the recorded value adjustment shall be reflected in the preparation of the depreciation schedule (Article 86f (2) of the Accounting Procedures).

In this context, the provisions of the Accounting Procedures concerning accounting for subsidiaries provided for such structures (Article 56 (12) of the Accounting Procedures) have been repealed.

The new provisions of the Accounting Procedures shall be used for the first time to account for a structure in an accounting period ending after 28 February 2009 (Article 86f (1) of the Accounting Procedures).

Accounting for inventory (Article 43 (1) of the Accounting Procedures)

In connection with the amended provisions of the Act on Accounting regarding audits of financial statements, the amended Accounting Procedures specify that accounting entities that use method B to account for inventory, where at least two of the criteria of size referred to in Article 19 (1) (a) of the Act on Accounting are met, shall use method A to account for inventory from the following accounting period.

Accounting for a state subsidy for the purchase of a new passenger motor vehicle (Article 52 (15) and (16) of the Accounting Procedures)

In connection with the Decree of the Ministry of Economy of the Slovak Republic of 4 March 2009 on Granting Subsidies for the Purchase of a New Passenger Motor Vehicle, the amendment to the Accounting Procedures regulates the method of accounting for this subsidy on the part of the buyer, the seller, and the producer representative (for example, an importer).

- The buyer shall reduce the acquisition cost of a new passenger motor vehicle in their accounting books by the amount of the subsidy provided.
- The seller or the producer representative shall record the subsidy in account 315 - Other receivables in their accounting books.

Incorporation expenses (Article 86f (3) of the Accounting Procedures)

The amendment to the Act on Accounting effective from 1 March 2009 has terminated the obligation to capitalize incorporation expenses against non-current intangible assets.

Incorporation expenses recorded as non-current intangible assets shall be taken out of the accounting books when preparing financial statements after 20 March 2009, which are prepared as of 1 March 2009 or later.

An accounting entity that prepares financial statements for the first time shall make the following entries:

- reversal of the carrying value:
 - Debit side of account 551 – Amortization and depreciation
 - Credit side of account 071 – Accumulated amortization of incorporation expenses

- taking incorporation expenses out of the accounting books:

- Debit side of account 071 – Accumulated amortization of incorporation expenses
- Credit side of account 011 – Incorporation expenses.

Other accounting entities shall make the following entries:

- reversal of the carrying value:
 - Debit side of account 428 – Retained earnings from previous year or Debit side of account 429 – Accumulated losses from previous years
 - Credit side of account 071 – Accumulated amortization of incorporation expenses
- taking incorporation expenses out of the accounting books:
 - Debit side of account 071 – Accumulated amortization of incorporation expenses
 - Credit side of account 011 – Incorporation expenses.

Increase in the valuation of property, plant and equipment and non-current intangible assets (Article 86f (4) and (5) of the Accounting Procedures)

In the amended Act on Income Tax, the limits for the valuation of property, plant and equipment, and non-current intangible assets, and technical improvement of property, plant and equipment and non-current intangible assets have been increased, with effect from 1 March 2009.

The Accounting Procedures do not separately define a limit for the valuation of these assets, but instead refer to the Act on Income Tax. Therefore, the amendment to the Act on Income Tax has an impact on the valuation of these assets for accounting purposes as well.

The limits for the valuation of non-current assets and technical improvement have been amended as follows:

- property, plant and equipment: 1,700 euros (prior to the amendment: 996 euros, SKK 30,000)
- non-current intangible assets: 2,400 euros (prior to the amendment: 1,660 euros, SKK 50,000)
- technical improvement of property, plant and equipment and non-current intangible assets: 1,700 euros (prior to the amendment: 996 euros, SKK 30,000).

Property, plant and equipment, including technical improvement

- put into use on 28 February 2009 at the latest, and
- whose valuation is equal to or lower than 1,700 euros

shall be considered property, plant and equipment and shall continue to be depreciated.

Non-current intangible assets

- put into use on 28 February 2009 at the latest, and
- whose valuation is equal to or lower than 2,400 euros

shall be considered non-current intangible assets and shall continue to be amortized.

Effective date of the amendment to the Accounting Procedures:

The Accounting Procedures will enter into force on 20 March 2009.

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