

Accounting and Reporting for Trade Receivables in the Slovak Republic: possible revision in the future?

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Abstract: *This paper deals with accounting and reporting for trade receivables in the Slovak Republic. Due to the national accounting regulations, which is provided in very detailed way, a possible accounting error may occur by simply selecting the improper account number from the group of accounts for trade receivable from the framework charts of accounts, which may result in incorrect accounting or reporting of trade receivables. Significance of such error is discussed in this paper and revision of current practice and legislation is proposed.*

Keywords: *trade receivable, accounting error, financial reporting*

JEL codes: M40, M48, G38

1 Introduction

The presentation of the financial statements of an accounting entity is the purpose of each accounting system. Mackenzie et al. (2014), Tumpach (2006), Šlosárová and Blahušiaková (2017) and other authors agree that information provided by the financial statements should be useful to a wide range of users for their decision-making process. But not all information needs can be met by financial statements and in some opinions certain group of users may be favored by the standard setting authority. In the Slovak Republic we have a very strict accounting system based on rules and regulations provided in a very detailed way by the government which is one of the parties interested in information provided by the financial statements.

Accounting system in the Slovak Republic is set by the Act on accounting, which provide legal guideline for all accounting entities and details on account-keeping and reporting for different groups of accounting entities are provided by the Ministry of Finance of the Slovak Republic by decrees which are legally bounding and shall be obeyed by individual groups of accounting entities that are designed for. Measures by the Ministry contains details on accounting principles, accounting policies and accounting procedures, framework charts of accounts applicable to that keep accounts in the double-entry bookkeeping system, the structure and designation of items in the financial statements and design of forms for financial statements. However questions arise which accounting regulations is better and provide more accurate data. Previously published study by Tumpach and Baštincová (2014) shows disproportions of cost and benefit for an accounting system rigidly set by detailed rules questioning relevance of such provided information. Study by Kubaščíková and Pakšiová (2015) deals with different results of financial analysis if IFRS rules are applied instead of Slovak legislation. Moreover Tumpach and Máziková and Kuceková (2015) discuss boilerplate reporting in an environment with overwhelming amounts of rules and very little or no inspection of presented data.

The aim of this study is to identify if any user could be misled by improper accounting for or reporting of trade receivables within the group of trade receivables accounts according the framework charts of accounts. Trade receivables are, according the Measure providing details concerning accounting procedures and the framework chart of accounts divided into five accounts, as shown in Table 1.

Table 1 Trade receivables accounts according to the framework charts of accounts

Account Number	Account Name
311	Debts receivable from customers
312	Bills of exchange
313	Debts receivable for discounted securities
314	Advance payments made
315	Other debts receivables

Source: framework charts of accounts

According to the Measure on accounting procedures, the account *311 Debts receivable from customers* is used to account for debts receivable from customers upon completing the delivery. No debts receivable arising from bills of exchange shall be posted to the account above. The account *312 Bills of exchange* is used to account for receipt of bills of exchange and promissory notes received from suppliers and other debtors. The account *313 Debts receivable for discounted securities* is used to account for debts receivable on bills submitted to the bank for collection prior to their maturity date and also other securities submitted to the bank for their discount. The credit side of the account is used to account for bills of exchange and other securities collected by the bank and also bills of exchange and other securities that were dishonored and returned by the bank. The account *314 Advance payments made* serves to account for long-term and short-term advance payments made to suppliers, other than advances made with respect to long-term assets. The account *315 Other debts receivable* is used to account for sundry trade debts receivable, such as claims against suppliers, claims to warranty lump sum payments arising from warranty repairs, and debts receivable from the sale of long-term assets and materials.

Accounting entity can also establish some more, own synthetic accounts which refer to the economic nature of the group of accounts, within which they were established, in order to complete the framework chart of accounts. This possibility won't be discussed in this paper. Moreover, each accounting entity is obliged to establish analytical accounts within its own individual charts of accounts. Following aspects shall be considered: time aspect (long-term/short-term assets), maturity, classification by individual debtors, foreign currency, classification according the balance sheet reporting, tax basis, affiliations and basis as per the needs of the accounting entity. (Máziková and Mateášová and Ondrušová 2016)

2 Methodology and Data

For analysis were used data obtained from the balance sheets of Slovak companies. Due to the nature of this paper, the main goal is achieved by comparison and analysis of actual data and results based own elaborations on possible scenarios with improper accounting and/or reporting of trade receivables. During preliminary testing of hypothesis on improper accounting or reporting of trade receivables some accounts were eliminated and the most possible risk of an error was found, due to the prescribed usage by the measure at accounts: *311 Debts receivable from customers* and *315 Other debts receivable*.

Accounting rules based on the Slovak legislation are presented in the introduction. According the Measure providing details concerning accounting procedures and the framework chart of accounts some accounts have specific usage prescribed in details, some are defined just generally. Due to my previous experience as an accountant I recall several occasions when improper account from debts receivable group was used. In most cases the mistake was made by improper selection of accounts number 311 or 315.

Further elaborations are based on assumption, that an accounting entity improperly used account 311 instead of 315 at the moment of sale of long-term asset - for example used machinery. There is only very small difference between use of both accounts and could be considered as a common mistake.

3 Results and Discussion

Based on the legislation, the usage of account 311 *Debts receivable from customers* is mainly for accounting debts receivables arises from common transactions with customers, such as sale of merchandise or sale of services. On the other hand, the account 315 *Other debts receivable* is designed for not every day transactions, such as sale of long-term assets, sale of material surplus, claims against suppliers or warranty claims. There are two possible scenarios what could occur.

A. Debt receivable is collected within the accounting period

In this scenario, the improper accounting for sale of long term assets to the debit of account 311 *Debts receivable from customers* will be negated by crediting the account at the moment when the debt receivable is collected in full. Such a mistake can be called a minor mistake with no possible impact on users decisions and no impact on financial reporting.

B. Debt receivable is not collected within the accounting period

In this scenario, the improper accounting for sale of long term assets to the debit of of account 311 *Debts receivable from customers* will result in improper balance report of this account in the balance sheet. Since the accounting is prescribed by the government in a very strict way there are two different sets of forms for a business accounting based on its size - we recognize micro accounting entities with shorter, aggregated financial statements. Second group – small and big accounting entities use different format for general financial statements, which is provided in a more detailed way. Further details on different reporting formats were discussed by study by Parajka (2016). To evaluate the impact of this error the proper identification of line entry in balance sheet is necessary. Before the identification of balance sheet line for reporting a time aspect of time aspect must be considered, because long-term assets are reported on a different line than short-term. Results are provided in Table 2.

Table 2 Reporting trade receivables in the balance sheet

	Micro accounting entity		Small/big account. entity	
	Line number	Designation	Line number	Designation
		<i>Non-current receivables</i>		<i>Other trade receivables</i>
Non-current trade receivables	16	(311A , 312A, 313A, 314A, 315A , 316A, 31XA, 335A, 336A, 33XA, 354A, 355A, 358A, 35XA, 371A, 374A, 375A, 378A, 381A, 382A, 385A) - 391A	45	(311A , 312A, 313A, 314A, 315A , 31XA) - /391A/
		<i>Trade receivables</i>		<i>Other trade receivables</i>
Current trade receivables	18	(311A , 312A, 313A, 314A, 315A , 316A, 31XA) - /391A	57	(311A , 312A, 313A, 314A, 315A , 31XA) - /391A/

Source: financial statements for micro accounting entity, financial statements for small/big accounting entity

Results presented in Table 2 show that there is no difference if the balance is reported on account number 311 or 315, because there is no separate reporting line for each individual account, but multiple accounts balances are aggregated into one entry in balance sheet. One can say that such mistake has zero effect on reporting.

After thorough analysis an assumption that there is no difference if trade receivables are accounted on account 311 or 315 can be made. Such assumption is based by the research

that no person can be harmed by this practice, because if the debt receivable is collected in full within the same accounting period as it arose such mistake would have zero influence on reporting. Secondly, if the debt receivable is not collected in full within the same accounting period the reporting of balances in the balance sheet is designed to provide only aggregated data on trade receivables, so there is no possible harm to any party involved. According to Šumanová and Juhászová (2016) risks of possible financial penalties arising from accounting mistake exists. Results are summarized in Table 3.

Table 3 Effects of 311-315 accounting mistake

	Effect on reporting by micro accounting entity	Effect on reporting by Small/big account. entity
Debt receivable collected within accounting period	NO	NO
Debt receivable reported as non-current asset	NO	NO
Debt receivable reported as current asset	NO	NO
Possible fine imposition	YES	YES

Source: by author

Based on these finding and based by requirements set by Measure on accounting procedures on analytical accounts a possible revision of accounting code could be done by simplifying rules set by the Ministry of Finance in Measure Measure providing details concerning accounting procedures and the framework chart of accounts by repeal of account number 315 *Other debts receivable* and account number 311 shall be renamed simply to *Trade receivables* and shall be used in all cases when necessary without further limitations. Individual analytical accounts in this case would be sufficient replacement of the current practice.

Conclusions

Presented paper deals with effects of possible accounting error by simply mistaken use of account 311 instead of 315. Such mistake has literally zero effect on accounting or reporting, so no harm could be done to any party except penalty could be imposed on the accounting entity because accounting rules were disobeyed. Based on the findings in this article and other studies used in preparation of this paper simplification of accounting legislation could be proposed.

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