News, Trends and Changes in the Field of Accounting in the Conditions of the Slovak Republic

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Abstract: *News and trends in the field of accounting in the Slovak Republic, but also in the world, bring various changes. In recent years, legislative developments have largely affected the Slovak Act on Accounting. From 2022, an amendment to the Act on Accounting entered into force, which brought changes in various areas, not only in general provisions, but primarily in the area of companies in crisis, inventory of stocks, annual report of non-profit accounting entities, digitalization of accounting and related new sanctions. Further changes are planned to apply from 2024 and, if approved, will present new reporting obligations for multinational companies. The aim of this paper is to analyze already adopted and planned changes in the field of accounting in the Slovak Republic.*

Keywords: *Act on Accounting, Changes, Obligations*

JEL codes: M41, M48

1 Introduction

All areas of business life are gradually developing and must adapt to new trends. Trends in international accounting harmonization are extensive (Tran, 2017) and the same applies to the field of accounting in the Slovak Republic. The Slovak Act on Accounting has undergone several changes (Act No. 431/2002 Coll. on Accounting, as amended). From January 1, 2022, Act No. 456/2021 Coll., amending Act No. 431/2002 Coll. on Accounting, as amended, entered into force.

The aim of the paper is to analyze already adopted and planned changes in the field of accounting in the Slovak Republic. Subsequently, it is important to summarize what the given changes mean for the accounting entities in connection with the fulfillment of their obligations.

The amendment to the Act on Accounting brought changes not only in general provisions, but also in other areas. The obligations of the company in the crisis have undergone changes. According to Slovak legislation, specifically according to §67a of the Commercial Code (Act No. 513/1991 Coll. – Commercial Code, as amended), a company (an accounting entity) is in crisis if it is in bankruptcy or at risk of bankruptcy. We also talk about a company in crisis if the ratio of its equity to liabilities is less than 8 to 100. Another area with changes is inventory of stocks. Inventory according to §29 sec. 1 of the Act on Accounting – the accounting entity verifies whether the state of assets, liabilities and equity in accounting corresponds to reality. Expanded obligations in connection with the reporting of information in the annual report also apply to non-profit accounting entities that have the obligation to audit of the financial statements according to §19 sec. 4 of the Act on Accounting. The field of digitalization of accounting has undergone significant changes. Today, there are leading technologies that have emerged as a result of the digitalization trend and are impacting accounting and reporting (Alhasana, Alrowwad, 2022). With the expansion of the obligations of the accounting entities, the sanctions that can be imposed on the accounting entities in case of non-fulfillment of obligations have also been expanded. Further changes are planned to be effective from 2024, and if approved, they will present the reporting obligations of multinational companies.

2 Methodology and Data

The main object of the research is news, trends and changes in the field of accounting in the Slovak Republic, which result from the amendment to the Slovak Act on Accounting and from the planned changes for the future.

The paper is primarily based on the knowledge of the areas that have undergone and are undergoing changes, their basic characteristics, a comparison of the past and present state and a summary of the impacts on the obligations of accounting entities. The data is mainly obtained from the Act on Accounting valid until the end of 2021 and from the version valid from 2022. We compared these two versions and found out the differences between them.

Several methods are used in the paper. The basis is the method of analysis and the method of comparison. Using the method of analysis in the paper, we analyze the individual provisions of the Act on Accounting that have undergone changes. The comparison method is used in the framework of comparing the provisions of the Act on Accounting valid until the end of 2021 and the provisions valid from the beginning of 2022.

The task of the paper is not only to analyze the individual provisions that have undergone changes, but also to inform accounting entities and the professional public about these changes and their final impact.

3 Results and Discussion

With effect from January 1, 2022, there were various changes in the Act on Accounting, while the first change is right at the beginning of this Act, in §1 Subject of legislation. This law regulates, among other things, the scope, method and provability of accounting. However, the change occurs in the points defining the accounting entities which accounting is regulated by this law. The first point remains unchanged. The second point concerns foreign entities, whereas in the past it was all foreign persons – legal entities and individuals, but now this point concerns only foreign legal entities. The third point is no longer dedicated to individuals in general, but specifically to foreign individuals and Slovak individuals. In §1, section 3 was added, which states that this law also applies to individuals who are not accounting entities, but have a permanent residence in the territory of the Slovak Republic in such a case, if they incur obligations in connection with the preservation of accounting documentation of such an accounting entity that ceases to exist without a legal successor or its business or other income-generating activity ends. The second option is that they are individuals who are not accounting entities, but they have an obligation to deposit documents. The obligation to deposit documents after the deletion of a commercial company or cooperative from the commercial register rests with a statutory authority or a member of this authority who was registered in the commercial register before the company was deleted from the commercial register and who was authorized to act on behalf of this company.

3.1 Company in Crisis

Capital companies have to identify, on the basis of accounting data, the ratio of equity and liabilities to determine whether the company is in the crisis or not (Ondrusova, 2017). One of the obligations of the accounting entity is according to §28 sec. 6 of the Act on Accounting, compliance with the condition - if the accounting entity is in crisis according to §67a of the Commercial Code, it is prohibited to return payments replacing own resources. In the case that the accounting entity was dissolved, the obligations of the accounting entity in crisis fall to it until the moment of its entry into liquidation.

3.2 Inventory of Stocks

Accounting entity according to §30 sec. 4 of the Act on Accounting can perform a physical inventory of stocks at any time during the accounting period. However, it is now possible to carry out a physical inventory of stocks in the first month of the following accounting period.

3.3 Annual Report of a Non-profit Accounting Entity

In the Act on Accounting, a section was added on the details of the annual report of accounting entities that have the obligation to verify the financial statements by an auditor according to §19 sec. 4 – these are non-profit accounting entities. A non-profit accounting entity with the obligation to audit of the financial statements is one that is a legal entity and the value of the received share of tax paid for the accounting period is higher than €35,000. For the accounting period in which these funds were used, the financial statements must be verified by an auditor within one year of the end of the accounting period, unless a special regulation provides otherwise. Non-profit accounting entities have to prepare annual reports that can detect and prevent accounting errors (Burks, 2015). Such an accounting entity prepares an annual report, which mainly contains the financial statements for the accounting period for which the annual report is prepared, as well as the auditor's report on these financial statements; an overview of the activities or projects carried out for the given accounting period (with an indication of the relationship of these activities to the purpose of establishing the given accounting entity); an overview of revenues broken down by individual sources, an overview of costs broken down by types of purpose, activities or projects (with a special calculation of management costs); a proposal for settlement of the management result and information on the future expected development of the activity of the given accounting entity.

3.4 Digitalization of Accounting

Synthesis and analysis by many authors reveal that some trends and drivers among analyzed will be more significant, for example, spread of digital technologies (Melnyk et al., 2020). Other authors say that the accountant is the main actor in this area and it is very important to know how his behavior affects digitalization and whether his experience can influence something in the result (Stoica, Ionescu-Feleaga, 2021b). Many fields are undergoing digitalization, and accounting is no exception. In connection with this, several changes occurred in accounting documents and accounting documentation in general.

The first changes occurred in the details of the accounting document according to §10 sec. 1 of the Act on Accounting. From letter f) the signature record of the person responsible for its accounting has been omitted, and the accounting document is no longer required to indicate the accounts on which the accounting case is recorded in the accounting entities accounting in the double-entry bookkeeping system, while this requirement was in the past version of the Act on Accounting part of letter g) of the relevant paragraph and section.

Several changes in connection with the digitalization of accounting occurred in the separate seventh part of the Act on Accounting, which deals with accounting documentation. In §31 Accounting record, the classification of the form of records was changed, while originally in sec. 2 of this paragraph defined the written and technical form of the accounting record. According to the amended version of the Act on Accounting, §31 sec. 2 talks about paper and electronic accounting records.

Other paragraphs of the seventh part of the Act on Accounting have also undergone changes, namely §32 and §33. §32 Provability of the accounting record was expanded by several provisions. An extension is, for example, sec. 3, which talks about the reliability and integrity of the accounting record and it can be ensured in three ways, namely a signature record of the responsible person, electronic data exchange or an internal control system of accounting records. Originally, only paragraphs within the provisions of §31 were devoted to the transformation of accounting records, but in the amended version of the Act on Accounting, a separate §33 entitled Transformation of the accounting record is devoted to this issue.

§33 clearly establishes the method of transformation of an accounting record - changing the form of an accounting record from paper to electronic or from electronic to paper. An accounting entity can perform the transformation of the same accounting record only once.

In addition to the guaranteed conversion, the accounting entity can transform the accounting record from paper to electronic by scanning. When it is transforming an accounting record by scanning, the accounting entity according to sec. 5 shall ensure the completeness of the accounting record in the original form and in the new form, the content and visual agreement of the accounting record in the new form with its original form, the readability of the entire area of the accounting record in the new form and the integrity of the content of the accounting record. By scanning, it is possible to transform all kinds of accounting documents, which are currently produced mostly in paper form, such as income and expense receipt documents, cash receipt documents (Crowe Advartis, 2022). The accounting entity transforms the accounting record from electronic to paper form by using the output device of computing technology, which enables it to be printed on paper in a way that guarantees the integrity and readability of the content of the accounting record. An accounting record, the form of which is the result of the transformation of an accounting record, is considered provable, while the presentation of the accounting record in its original form is not required, unless special regulations provide otherwise. The accounting profession is such a field where digital transformations take its tool (Stoica, Ionescu-Feleaga, 2021a).

Extending the obligation for accounting entities in connection with the transformation of accounting records, ensuring the credibility of the origin and the integrity of the content of the accounting record, §32 and §33 are added to the provisions for which, in the case of their violation, the accounting entity can be sanctioned (Crowe Advartis, 2022).

3.5 New Sanctions

Since there were changes in several areas, the changes also affected sanctions. Sanctions for administrative offenses are contained in §38 of the Act on Accounting.

In the case of a serious violation of the Act on Accounting - for example, in the case of failure to keep accounts, failure to draw up financial statements or in the case of making accounting records outside the accounting books, or making records about such an accounting case that did not occur is concealment and non-accounting of facts that are the subject of accounting. In the cases mentioned, a sanction may be imposed, in the amount of €1,000 to €3,000,000.

If the accounting entity does not deposit the accounting document in the register, thereby failing to fulfill its obligation, which results in the fact that the tax office does not have the financial statements at its disposal and therefore does not have the possibility to calculate the amount of the penalty from the value of the assets, it can impose a penalty in the amount of €100 up to €10,000.

In case of violation of obligations in the area of storage and protection of accounting documentation, a penalty of between €100 and €100,000 may be imposed.

In case of non-fulfillment of the obligation by the statutory authority (the last statutory authority or member of the statutory authority entered in the commercial register before the deletion of the company from the commercial register) or for violation of obligations in the area of keeping accounting documentation by an individual, it is in the amount from €100 to €100,000.

3.6 Reporting of Multinational Companies - Planned Changes from 2024

In the field of the amendment to the Act on Accounting, there are proposals for changes that should only be valid from 2024, if they will be approved. In this context, we can talk about the introduction of new reporting obligations for multinational companies, namely the publication of income tax information (Pukalovic, 2022). The aim of this proposal is to increase the transparency and public control of these companies and also to promote social responsibility in this area. The global economy is constantly developing and companies operating on world markets are still increasing (Hinke, Valtova, 2017).

In the case that the draft law in this version will pass, the biggest change, or the obligation will be a report with information on income tax. This report will be stored in the register of financial statements, while it should contain information on the amount of taxes paid, as well as other additional information. However, the content of this report will be determined by the Ministry of Finance of the Slovak Republic. This obligation will apply to the final parent accounting entity and a separate accounting entity with certain criteria. If these conditions are met for two consecutive accounting periods, then the obligation to prepare a report with information on income tax arises only for the second accounting period, so that the accounting entities do not have to prepare this report retroactively for the first accounting period. The proposal is for these reports to be stored for the first time for the accounting period starting on June 22, 2024 (Pukalovic, 2022).

Related to this is a new obligation for auditors. In the auditor's report to the company's financial statements, the auditor will be required to also include information on whether the accounting entity was required to file a report with information on income tax for the accounting period immediately preceding the period for which the audited financial statements are drawn up, and whether the accounting entity deposited a report with information about income tax.

Another related obligation is the obligation of public interest entities to include non-financial information in the annual report. This obligation is part of §20 sec. 9 of the Act on Accounting in its currently valid version. The so-called non-financial information is information about the development, positions, actions and impact of the accounting entity on the social, employment or environmental areas, as well as information about the observance of human rights or the fight against corruption and bribery. So it is an area of social responsibility.

The mentioned changes that may be brought about by the new draft law will thus affect only large companies, while the proposed wording as well as the criteria in it may still change.

Conclusions

News, trends and changes in the field of accounting bring new obligations also for accounting entities in the Slovak Republic. Clear evidence is the constantly changing and amended Slovak Act on Accounting. Every accounting entity has to track the accounting laws and their changes (Bartosova, Berzakova, 2016). The Act on Accounting imposes various obligations on accounting entities, which they must fulfill, because in the case of non-fulfilment, they face sanctions for administrative offenses in the form of penalties of varying amounts depending on the type of offense.

Since not only business life is constantly evolving, all the news and trends that are subject to changes in the field of accounting can ultimately represent increased costs for accounting entities. The more obligations the accounting entities have, the greater burden it represents for them. However, on the other hand, if they did not fulfill these obligations, the costs for them would be much higher due to the imposition of sanctions for administrative offenses.

The threatening sanctions for administrative offenses are also evidenced by the provisions of the Act on Accounting, which are adapted to the changes given by the amendment to the Act on Accounting. In 2022, the amendment to the Act on Accounting brought changes not only in the area of companies in crisis, inventory of stocks, digitalization of accounting and other areas, but the expansion of administrative offenses was also related to these changes. It is certain that the other planned changes from 2024 would, if approved, pose new threats of sanctions for multinational companies. Legislative changes reflect not only on accounting rules but as well as on the range of fines and penalties in case of the violation of accounting legislation (Mokosova et al., 2017). Threatened sanctions are often referred to as "negative motivation", with the help of which various authorities try to reach the point where the obligations on the part of the accounting entities are fulfilled in full. Furthermore, it is only up to all subjects to consider how they will approach the fulfillment of their obligations.

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