AUDITOR
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SK

INFORMATION FOR CLIENTS 7 / 2012[i]

December 2012

FINANCIAL STATEMENT 2012

Dear Client,

The approaching year end brings an increased workload in particular concerning the need to prepare financial statement and income tax return. The aim of the financial statement is to give a true and fair view about facts of accounting entity. We would like to take this opportunity to draw your attention to the need to carry out some essential accounting and tax operations, to close the books and subsequently to prepare financial statements and tax return.

We would like to inform you about deadlines for submitting corporate income tax return and financial statement, about audit obligations of financial statement and about disclosure of financial statements to the Collection of documents and announcement in the Commercial bulletin.

1. Preparation of financial statement – balancing operations connected with accounting analysis

1.1. Inventorying of assets and liabilities

Before closing of books it's important to provide inventorying of assets and liabilities which proves the objective correctness of accounting and real valuation of assets, liabilities and equity. An accounting entity shall perform inventorying as of the balance sheet date except for tangible assets and cash on hand where the inventorying could be performed also in another term. Inventorying consists of two parts namely an inventory due to which the actual state of assets, liabilities and equity will be established and the following comparison of accounting state with actual state.

1.1.1. Inventory

According to Act on Accounting there is physical inventory and documentary reconciliation, eventually their combination. The actual state of tangible and intangible assets shall be established by **physical inventory**, it means the assets where is possible to establish the actual state by counting, measuring, weighing etc.
Inventorying of tangible assets other than stores (e.g. non-current depreciated assets) shall be performed at least once per two years. The physical inventory of these assets which cannot be performed as of the balance sheet date may be carried out during the last three months of the accounting period or in the first month of the next accounting period.
The physical inventory of stores may be performed by an accounting entity at any time during the accounting period. In both cases it's important to establish the actual state as of the balance sheet date (31.12.2012) and consider the surpluses and shortages after the date of performing physical inventory.
Cash on hand must be inventoried at least 4 times a year.

In case of liabilities, equity and those assets whose physical inventory is impracticable (e.g. receivables), the actual state shall be established by **documentary reconciliation** according the accounting records and other documents. In case of liabilities and receivables the inventory is carried out in the form of written reconciliation with clients and suppliers yet.

A combined inventory will be performed in case of those assets where the facts have to be physical inventoried and also documentary reconciled as e.g. physical inventory of stores and together evidence on stores cards or eventually physical inspection of building and together verification of statement from land registry.

After performing of inventory (physical inventory, documentary reconciliation or combined inventory) the inventory list will be drawn up with information about actual state of assets, liabilities and equity.

1.1.2. Comparison of accounting value with real value

The real values will be compared with accounting values where the differences shall be noted in inventories' records. If the real values are the same as accounting values it will be noted in inventories' records, too.

Differences between real value and accounting value have to be properly analysed by accounting entity, because not each difference should be an inventory's difference. About inventory's difference we speak in this case when the difference could be not proved by accounting documents. Inventory's difference could be considered as shortage or surplus. Inventories' differences (shortage and surplus) shall be booked with impact on tax base.

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AUDITOR SK s. r.o., Fraňa Kráľa 35, 811 05 Bratislava, IČO: 35767553, DIČ: 2020274619, IČ DPH: SK2020274619,
Spoločnosť je registrovaná na Okresnom súde Bratislava I, oddiel: Sro, vložka č.: 19152/B.
Tel.: +421 2 544 14 660, Fax: +421 2 544 14 972, e-mail: bratislava@auditor.eu

It is necessary to assess also the real value of the assets on stock during the inventorying taking as well as the risks associated with their contingent sale (e.g. unsellable stock, damaged stock, unpaid receivables). This correction of asset value (booking about adjustments, provisions or permanent depreciations; see point 1.6. and 1.7.) shall be never regarded as inventory's difference.

Every company must prove that it has taken the inventorying and it must dispose with inventorying results and records of book entries taken upon discovered inventorying differences for the minimum of 5 following years.

1.2. Settlement of accounting economic result from previous period

An accounting economic result after income tax from previous period shall be booked on the account 431 - economic result in progress on the beginning of accounting period. This account shall not have any balance on the end of the accounting period. The respective company body (mostly general meeting) shall decide about profit or loss from previous period. The account 431 will be booked according this decision.

Profit from the previous period eventually his part will be obligatory used as allocation to the reserve fund firstly (in case of duty to create a reserve fund according law or company's agreement). Other possibilities of using of profit from previous accounting period is allocation to other funds, payment of dividends, covering of loses from previous periods eventually rebooking on the account retained profit from previous years.

The loss from previous accounting period could be covered by profits from previous years, due to reserve fund or other funds or e.g. due to debts against partners of accounting entity. Next possibility is to rebook it on the account loss brought forward from previous years.

If the respective company body doesn't decide about using of profit or covering of loss up to the end of accounting period (eventually decides but not about the whole amount of economic result), the balance of account 431 shall be rebooked on the accounts of equity (428 - retained profit from previous years, 429 - loss brought forward from previous years).

1.3. Recording of costs and revenues in the correct time period

An accounting entity is obliged to book the costs and revenues in the accounting period, with which they substantially and chronologically correlate with no matter when exactly arise the expenditures and incomes.

Time difference between costs (revenues) and expenditures (incomes) shall be resolved due to accruals at the end of an accounting period.

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It is also necessary to verify whether all the revenues of the closed year were really invoiced and whether the books take into account invoices from suppliers for all deliveries received.

Concerning work in progress the value of already invested costs must be capitalized which will ensure that a long-term project will influence income only in the year in which it is completed. In case of job–order manufacturing the proportion of the profits determined by the degree of the finished order has to be capitalized.

1.4. Exchange rate differences non-realized

Assets and foreign liabilities (e.g. currency funds, liabilities, receivables and securities) have to be converted to Euros by reference exchange rate determined and declared by the European Central Bank on the balance sheet date. The exchange rate differences calculated on this day are treated as non-realized and mean no cash flow in the company.

The exchange rate differences non-realized are booked with impact on business result or equity on the balance sheet date. In case of ownership of shares the exchange rate differences non-realized valuated by equity method are booked using equity accounts. In case of valuation of currency funds, liabilities and receivables the exchange rate differences non-realized shall to be recorded in the income statement with tax impact.

Advance payments received and advance payments made are valuated with historical exchange rate, it means no exchange rate on balance sheet date is applicable.

1.5. Deferred tax

About the deferred tax must book a company with statutory audit. After duty of booking about deferred tax is the company still obliged to book about deferred tax. Other companies could book about deferred tax on their own decision.

The deferred tax is one of the instrumental of accounting leading to true and fair view about accounting entity. The deferred tax is determined by tax adjustments of accounting results from previous periods and means the increase of future tax duties (deferred tax liability) or decrease of future tax duties (deferred tax debt). Booking of deferred tax is only accounting matter and has no influence on the amount of tax payable.

Accounting deferred tax shall always be booked in case of temporarily differences between accounting and tax assets and liabilities value, in case of deduction of tax loss in future and in case of transfer unused tax deductions and other tax rights to the future accounting periods.

1.6. Provisions

Provisions shall mean liabilities with uncertain time specification or amount. These are booked for the reason of keeping principle of carefulness on balance sheet day. Due to of booking of provisions the liability meaning an accounting entity's existing obligations will be taken into account which arise from past events and which are expected to reduce the accounting entity's future economic benefits.
The provisions are booked for e.g. current uninvoiced supplies, preparing of financial statements, complains, redundancy payment, discounts, possible litigations, fines etc.

Accounting provisions shall always be booked if it follows from accounting regulation and no matter whether they are tax deductible or not (see point 2.2.).

1.7. Adjustments

The booking of adjustment relates to principle of carefulness in the financial statements. The company is always obliged to book adjustment if there is a justified assumption of a temporary reduction of assets value under their book value. The permanent adjustment shall be solved by e.g. write-off of doubtful debts receivable. The company is obliged to consider if on balance sheet day exist a risk of reduction of assets value or not and subsequently to evaluate this risk.

The accounting entity books about adjustments in case of temporarily reduction of
non-current tangible and intangible assets and financial investments value, temporarily reduction of inventories value and in case of debt receivables with respect to which there is a risk of partial or total default by the debtor and in case of debts receivable from debtors in bankruptcy and reorganisation proceedings.

Accounting allowances shall always be made properly if it follows from accounting regulation and no matter whether they are tax deductible or not (see point 2.3.).

1.8. Accounting guidelines

The Act on Accounting and related regulations enable alternative solutions to a number of accounting issues. This however might influence the tax base of the particular period.
As a result it is inevitable that each accounting unit determines its own accounting policy, concerning keeping records and stock-taking in these particular issues and has these principles taken down in its internal guidelines and directions.

Internal guidelines shall be mainly compiled to govern these areas:

- Bookkeeping,

- Stock-taking of assets, liabilities and treatment of the differences,
- Records, valuation and depreciation of fixed assets,
- Valuation, accounting, records and stock-taking of inventories.

2. Selected tax operations of accounting economic result before tax

2.1. Tax depreciations and net book value of tangible and intangible assets

An accounting entity depreciates the tangible and intangible assets (obligatory in the higher amount as law prescribes and voluntary in the lower amount as law prescribes) according to accounting principles and methods during the expected term of using. For this purpose it's obliged to prepare a depreciation schedule according it the assets are depreciated.

The accounting depreciations of tangible and intangible assets are treated as tax deductible only according to Act on Income tax. The higher amount of accounting depreciations than it's allowed according to Act on Income tax are treated as non taxable expenses. The difference between lower accounting depreciations and the amount of depreciations according to Act on Income tax decreases the tax base.
The differences between accounting and tax base arise in case of disposal, damage etc, too.

2.2. Tax provisions

As mentioned in point 1.6., an accounting entity is obliged to book provisions, if it follows from accounting regulation. Setting aside provisions is tax deductible only, if made due to the following reasons:

- unspent holidays including insurance and contributions which an employer must pay for an employee,
- supplies and services not invoiced at balance sheet date,
- compilation, verification and publishing of the financial statements and the annual report and compilation of the tax return,
- reserves for produced emissions.

The above mentioned do not concern businesses using the single–entry bookkeeping system. Further reasons are

- forest activity according to the special regulations,
- liquidation of mines, disposal of waste concerning mining,
- closing, recultivation and monitoring of waste-dumps following their closure,
- liquidation of household electronic waste.

Booking of other provisions e.g. provisions for bonuses of employees, provisions for litigations, provisions for complains etc., these are not treated as tax deductible expenses.

If in the following accounting/tax periods the provision, which is not being treated as a tax expense, will be used, the expense with respect to which a provision for contingent liabilities has been posted will decrease a tax base (only in case of expense which is being treated as a tax expense).

2.3. Tax allowances

An accounting entity is obliged to book allowances, if it follows from accounting regulation (see point 1.7.). Not each booked allowance is treated as tax expense. According to Act on Income tax only the allowances for property acquired, allowances for debts receivable, which are not yet time-barred, and allowances for debts receivable from debtors in bankruptcy and reorganisation proceedings are treated as tax expenses.

It is possible to make a tax deductible allowances for debt receivables (included in the taxable income before) which are not time barred with respect to which there is a risk of partial or total default by the debtor are limited as follows:

a) more than 360 days overdue, adjustment up to 20% of nominal value,
b) more than 720 days overdue, adjustment up to 50% of nominal value,
c) more than 1 080 days overdue, adjustment up to 100% of nominal value.

Such allowance will not be tax deductible if it is possible to offset the receivable with an overdue payable against the taxpayer's debtor.

In case of debts receivable from debtors in bankruptcy and reorganisation proceedings it's important to register them within the deadline specified in the bankruptcy order or reorganisation approval. In this case the allowances will be fully tax deductible.

In case of the following payment of these debts receivable the allowances shall be included in the tax base in the tax period, in which the debts receivable are settled.

If the debts are denied by the bankruptcy receiver, which were registered within the deadline (the tax allowances were booked) and the company goes not to court, the tax base shall be increased by the value of the debts so denied.

2.4. Tax write-off of receivables

Act on Income tax differentiates between write-offs of „common" receivable, „low-value" receivable and „doubtful" debts receivable.

The write-off of a debt receivable up to the amount of an allowance which would be treated as a tax expense is fully tax deductible (see point 2.3.).

It is possible to write off a „low-value" receivable amounting up to EUR 331.94 for tax purposes if the following two conditions are met:

a) total amount of receivables concerning the debtor do not exceed EUR 331.94 and
b) the receivable is overdue for more than 720 days (other regulations for banks) and it is possible to create a tax-deductible allowance to this receivable.

The expense in the amount of write-off of „doubtful" debts receivable is in the specific law cases considered as a tax expense (a court has dismissed a petition for bankruptcy, has stayed bankruptcy proceedings etc.).

2.5. Taxation of unpaid liabilities

Debtors must tax liabilities which are overdue for more than 36 months, if these relate to:

a) liabilities concerning tax deductible expenses,
b) depreciable and non-depreciable fixed assets,
c) inventories,
d) other assets, at which the expense (cost) arises at its inclusion into or exclusion from consumption or from use.

The liabilities are taxed in the tax period, in which they become due for more than 36 months.

If these liabilities are settled, become statute-barred or extinct, the tax base will be decreased by the appropriate already taxed part of the liability.

This procedure does not involve enterprisers who use a single–entry bookkeeping system.

3. Deadlines for submitting corporate income tax return and financial statement for the year 2012

According to the Act on accounting an accounting entity shall prepare financial statements as of 31 December 2012 at least until the end of June 2013, unless drawn up according to separate regulation.

Deadline for submitting corporate income tax return for 2012 is generally 1st of April 2013.

An extension of the term for another 3 months can be announced to the tax office by the tax payer (for 6 months for tax payers with foreign sources of income). This announcement shall be submitted at least on 1st of April 2013.

For companies with a financial year different from the calendar year the deadline ends either 3 (eventually 6 or 9) months after the balance sheet date.

The corporate income tax return shall be submitted to the tax office together with its attachment financial statement.

4. Conditions and deadlines for audit of financial statement 2012

Individual financial statements for the year 2012 must be audited in case of the following accounting entities:

a) a company, which is required to create share capital (e.g. limited liability companies, joint–stock companies) and a cooperative, if, as at the date of financial statements and for the immediately preceding accounting period, at least two of the following conditions have been met:

  (i) Total gross assets exceed EUR 1 mil.
  (ii) Revenues exceed EUR 2 mil.
  (iii) Average calculated number of employees exceeds 30

b) an enterprise and cooperative whose securities have been admitted to trading on a regulated market,

c) should prepare its financial statements in accordance with article 17a – IFRS (e.g. banks, insurance companies, administration companies)

d) is subject to this requirement under a separate regulation (foundation)

In case of subjects mentioned in letter a) at least two of these conditions must be met at the date of financial statements and for the preceding accounting period. In other words, the financial statements for 2012 will be audited, if the conditions were met on 31st of December 2012 and for the year 2011.

The Audit must be performed until the end of the following accounting period, i.e. financial statements for 2012 must be audited until the end of 2013.

5. Disclosure of annual financial statements 2012

For the disclosure of annual financial statements prepared as of 31st of December 2012 and later new rules shall be applied. The entities will not be obliged to deposit the annual financial statements anymore, this obligation will be fulfilled by the tax office instead of them. The obligation of deposition will be met by handing in financial statements to the tax office already.

At present a novel of the Act on accounting is being discussed in the Parliament. According to this novel the new rules will be applied for the financial statements prepared as of 31st of December 2013 and later. Below we present to you the obligations related to the disclosure of financial statements for the year 2012 in case of approval of the mentioned novel of Act on accounting.

5.1. Joint-stock company und private limited liability company without statutory audit

Within 6 months after the end of the accounting period the statutory body is obliged to submit the financial statements for approval to the respective company body. The statutory body is obliged to deposit the financial statements into the Collection of documents within 30 after their approval. If the financial statements are not approved within 3 months after the date of their submission to the respective company body, the statutory body is obliged to deposit the non-approved financial statements within 30 days after the futile expiration of this 3-months period. The duty to deposit (within 30 days) of approved financial statements into the Collection of documents still remains after the submission of non-approved financial statements.

5.2. Joint-stock company und private limited liability company with statutory audit

The rules for deposit of financial statements as mentioned above are valid for companies with statutory audit, too.

Furthermore companies with statutory audit are obliged to deposit the audited financial statements including the auditor's annual report to the Collection of documents. Furthermore joint-stock companies und private limited liability companies with statutory audit are obliged to announce the financial statements in the Commercial bulletin. The announcement to the Commercial bulletin shall be filed within 30 days after the approval of the financial statements. The balance sheet and the income statement shall be handed in.

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5.3. General partnership and Limited partnership

The statutory body is obliged to deposit of financial statements to the Collection of documents within 7 months after the end of the accounting period. These companies are not obliged to publicize the financial statements in the Commercial bulletin.

5.4. Branches of foreign companies

All the above mentioned terms applicable to Slovak companies are fully relevant for branches of foreign entities. In addition to the financial statements of the branch, the financial statements of the foreign "mother" company compiled in accordance with the legal provisions and in the language of the country of the foreign "mother" company including the certified translation into Slovak have to be handed over into the Collection of documents.

Shall you have any questions do not hesitate to contact us.

Your AUDITOR team
(Bratislava)

i The present client document on legislative changes is of an informational character and is in no case a substitution for professional consultation. Do not hesitate to contact our offices regarding the solution of specific cases.

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