

# Micro Accounting Entities in the Slovak Republic – A Year After an Introduction

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## Abstract

This paper is focused on hypothesis that small businesses identified as a micro accounting entities by the national accounting regulation in The Slovak Republic choose to present its annual financial statements in simplified form rather than in the full format reporting available for all accounting entities. Since 1 January 2014 business accounting entities keeping accounts in the double-entry bookkeeping system meeting certain size criteria qualified as micro accounting entities can choose to use simplified accounting procedures and to present more simple set of forms for annual financial statements. This hypothesis will be tested on data obtained from the Registry of financial statements provided by The Ministry of Finance of The Slovak Republic. Results will provide answers as to whether an introduction of simplified accounting procedures and more simple forms for annual financial statements was accepted by businesses or not.

## Keywords

Financial statements, financial reporting, analysis of financial statement, micro accounting entity.

## Introduction

The main objective of any accounting system is to provide information. This goal is achieved by presenting financial statements of an accounting entity with purpose to provide information about the financial position, performance and changes in financial position of that entity which is useful to a wide range of users in making economic decisions. According to Šlosárová (2014), Tumpach (2006), Mackenzie et al. (2014), Máziková & Ondrušová (2014) financial statements are designed to provide useful information to various users. Not all information needs can be met by financial statements. There are needs which are common to all users while each group of users has specific needs for information, which are often not in mutual contradiction. The accounting rules in The Slovak Republic are set in a very detailed way by the government which on its own is one of the parties interested in information provided by the financial statements. To meet the definition of financial statements, available information in each country has to be standardized and provided by financial reporting in the form of general financial statements.

Based on literature Šlosárová (2014) regulation of keeping accounts and financial reporting can be achieved by: (a) regulation of financial reporting; (b) regulation of keeping accounts and financial reporting (p. 40). Legal regulations regarding accounting and financial reporting have been prescribed in a very detailed way for both, keeping accounts and for financial reporting in the Slovak Republic. The regulation of accounting in general is provided by the Act on Accounting (2013) which defines the extent of keeping the accounts, and specify: accounting entities, subject of accounting, methods of accounting, period of keeping the accounts, responsibilities and obligations when keeping accounts, definition of accounting documents, accounting entries, accounting ledgers, requirements regarding the financial statements and consolidated financial statements, methods of publication, the duty to have financial statements verified by an auditor, the option and obligation of using the International Financial Reporting Standards. Detailed regulation of keeping accounts and requirements regarding the content and form of the financial statements are provided by Ordinances issued by the Ministry of

Finance of the Slovak Republic. Since its introduction in 2002, the Act on Accounting (2002) was designed to provide legal guideline for all accounting entities regardless their size or needs. The set of financial statements designed by the Ministry of Finance of the Slovak republic was provided by Ordinance on financial statements which were compulsory for all business accounting entities keeping accounts in double-entry bookkeeping system. The complete set of financial statements includes: balance sheet, statement of profit or loss and notes.

Financial accounting during an accounting period is regulated by the Ordinance providing details concerning accounting procedures and the framework chart of accounts for businesses using double-entry bookkeeping system issued by the Ministry of Finance of The Slovak Republic and all accounting entities shall be required to adhere thereto. Here follow few figures just to illustrate a level of accounting regulation in The Slovak Republic:

- number of accounts reported in the balance sheet: 150
- balance sheet length: 145 lines (including 24 group totals)
- number of accounts reported in the statement of profit or loss: 98
- statement of profit or loss length: 61 lines (including 14 group totals).

Simply by comparing number of accounts reported in the balance sheet (150) with number of lines in the balance sheet (101) we reach an approximate ratio of 1.24 account per 1 line reported in the balance sheet and the same analyzes can be done with the statement of profit or loss with results approximately 2.1 account reported per 1 line. Such strict regulation is even more complicated, setting rules to break each account into its analytics according to more detailed reporting needs. So instead of providing basic guidelines, regulators set a very strict policy on accounts numbering and reporting resulting in a set of financial statements of length of 9 pages plus preface to each part of the financial statements extending the complete set of the balance sheet plus the statement of profit or loss to 12 pages. Comparing such a set of financial statement forms, which is compulsory for all financial statements prepared in accordance with national accounting regulation in the Slovak Republic, with obligations set by internationally accepted accounting regulations (such as US GAAP, IFRS, European

directives) could provide false conclusion that international regulations provide insufficient or irrelevant information or that the Slovak legislation should be promoted to globally accepted standard for its nature of providing relevant information. The truth is the opposite. According to study made on a sample of 1,687 companies in a period of 3 years by Tumpach and Baštincová (2014) some 16 % of lines in the compulsory balance sheet form have 0 balances. It has been proved that governmental intervention, as a preferred user of information provided by the financial statements, could potentially increase the opportunity costs caused by the imperfect information by increased bureaucratic burden and by formal compliance (p. 656).

### 1. Micro accounting entity

Based on the implementation of Commission Recommendation (2003/361/EC) of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003, p. 39), the micro accounting entity was introduced into the Act on Accounting (2013) in year 2013 effective from 1 January 2014 by the amendment to the Act on Accounting for an accounting period commencing on or after 1 January 2014. One of objectives by this introduction was to reduce administrative burden of accounting regulations for small businesses and to simplify accounting procedures and annual financial reporting. According to the Act on Accounting (2013), an accounting entity shall be considered as micro accounting entity if (a) for the accounting period in which they were established, they have decided to operate as a micro accounting entity; or (b) as of the financial statements date and for the immediately preceding accounting period, they have not exceeded two of the following conditions: (i) its total assets did not exceed EUR 350,000; (ii) its net turnover did not exceed EUR 700,000; (iii) its average calculated number of employees did not exceed 10 during the accounting period. Accounting entity meeting specified criteria could become a micro accounting entity with its benefits of simplified accounting procedures and financial reporting. One of the advantages for a micro accounting entity is exception of usage of fair value measurement method. The other advantage, which is discussed in this paper, is a set of simplified forms for annual financial statements. The criteria for small businesses were adopted according the EU regulation. Comparing the 10 employees limit with data provided by the Statistical Office of the SR (2016),

STATdat database, there were 184 258 business legal entities out of which 145 328 had less than 10 employees. The other two criteria could not be tested via STATdat database, but it is estimated that some 80 % of small business will meet the turnover ceiling and total assets ceiling.

### 1.1. Introduction of financial statements of a micro accounting entity

Financial reporting is, essentially, a process based on providing information acquired by financial accounting during the accounting period by presenting annual financial statements. The success of this communication depends upon the appropriateness of the accounting principles. Clarity of presentation and disclosure in the financial statements are determined by the degree of understanding by the readers of the financial statements. It is common fact that if volume of information on the same topics increase, the degree of understanding decreases with higher possibilities for error. Financial statements of a micro accounting entity should present fairly in accordance with the Act on Accounting (2013), the financial position, performance and changes in financial position of a micro accounting entity that is represent faithfully the substance of transactions and other events in accordance with the national accounting regulations in the Slovak Republic. To achieve these requirements the new set of simplified forms for annual financial statements of a micro accounting entity was introduced. It consist only of 2 pages instead of 9 pages and vertical structure consist only of 45 entries comparing to 145 entries of standard balance sheet form used before the introduction of micro accounting entities. This was achieved by simple procedure – line entries are presented in more aggregated form. Values provided for each line entry of assets are presented only in two columns (instead of 4) all in accounting value (net value): (1) current accounting period; (2) preceding accounting period. The content of line entries are strictly set according account number based on the framework chart of accounts. List of assets, equity and liabilities presented in the balance sheet for micro accounting entity is provided in the *Table 1*. Lines containing group totals are highlighted in bold.

**Table 1** Balance sheet for micro accounting entities by line entries

Line number		Line number	
<b>1</b>	<b>TOTAL ASSETS</b>	<b>24</b>	<b>TOTAL EQUITY AND LIABILITIES</b>
<b>2</b>	<b>Non-current assets (total)</b>	<b>25</b>	<b>Equity (total)</b>
<b>3</b>	<b>Non-current intangible assets (total)</b>	<b>26</b>	<b>Share capital (total)</b>
<b>4</b>	<b>Property, plant and equipment - total</b>	<b>27</b>	Share capital and change in share capital
5	Land and structures	28	Unpaid share capital
6	Individual movable assets and sets of movable assets	29	Capital funds
7	Other property, plant and equipment	30	Funds created from profit
8	Value adjustment to acquired assets	31	Differences from revaluation
<b>9</b>	<b>Non-current financial assets - total</b>	<b>32</b>	Net profit/loss of previous years
10	Shares and ownership interests	33	Net profit/loss for the accounting period after tax
11	Other non-current financial assets	<b>34</b>	<b>Liabilities (total)</b>
12	Bank accounts with notice period exceeding 1 y.	35	Non-current liabilities except provisions & loans
13	Other non-current financial assets with residual notice period not exceeding one year	36	Long-term provisions
<b>14</b>	<b>Current assets (total)</b>	<b>37</b>	Long-term bank loans
15	Inventory	<b>38</b>	<b>Current liabilities except provisions, loans and financial assistance - total</b>
16	Non-current receivables	39	Current trade liabilities
<b>17</b>	<b>Current receivables - total</b>	<b>40</b>	Liabilities to employees and to social security
18	Trade receivables	41	Tax liabilities and subsidies
19	Social security, tax assets and subsidies	42	Other current liabilities
20	Other receivables	43	Short-term provisions
<b>21</b>	<b>Financial assets (total)</b>	<b>44</b>	Current bank loans
22	Cash and bank accounts	45	Short-term financial assistance
23	Other financial assets		

Source: author, based on MF SR (2013)

The purpose of the statement of profit or loss is to provide detailed information on the balance sheet entry of "Net profit/loss for the accounting period after tax". It displays the revenues recognized for an accounting period, and the cost and expenses charged against these revenues, including depreciation and amortization of various assets and taxes. The statement of profit or loss was reduced only to 38 entries from original number of 61 entries. The list of compulsory required line entries of statement of profit or loss for micro accounting entities is provided in *Table 2*. Highlighted in bold are line entries containing group

totals (9 entries). The statement of profit or loss for micro accounting entity is designed to provide basic economic indicators required for financial analyzes.

**Table 2** Statement of profit or loss for micro accounting entities by line entries

Line number		Line number	
1	<b>Operating income - total</b>	20	<b>Income from financial activities - total</b>
2	Revenue from the sale of merchandise	21	Revenue from the sale of securities and shares
3	Revenue from the sale of own products and services	22	Income from non-current financial assets
4	Changes in internal inventory	23	Income from current financial assets
5	Own work capitalized	24	Interest income
6	Revenues from the sale of non-current intangible assets, property, plant and equipment, and raw materials	25	Exchange rate gains
7	Other operating income	26	Other income from financial activities
8	<b>Operating expenses - total</b>	27	<b>Expenses related to financial activities - total</b>
9	Cost of merchandise sold	28	Securities and shares sold
10	Consumed raw materials, energy consumption and consumption of other non-inventory supplies	29	Expenses related to current financial assets
11	Services	30	Value adjustments to financial assets
12	Personnel expenses	31	Interest expense
13	Taxes and fees	32	Exchange rate losses
14	Amortization and value adjustments to non-current intangible assets and to property, plant and equipment	33	Other expenses related to financial activities
15	Carrying value of non-current assets sold and raw materials sold	34	<b>Profit/loss from financial activities</b>
16	Value adjustments to receivables	35	<b>Profit/loss for the accounting period before tax</b>
17	Other operating expenses	36	Income tax
18	<b>Profit/loss from operations</b>	37	Transfer of net profit/net loss shares to partners
19	<b>Added value</b>	38	<b>Profit/loss for the accounting period after tax</b>

Source: author, based on MF SR (2013)

### 1.2. Adoption of Financial Statements of a Micro Accounting Entity

Financial statements of a micro accounting entity were introduced in 2013 and adoption was set for an accounting period commencing on or after 1

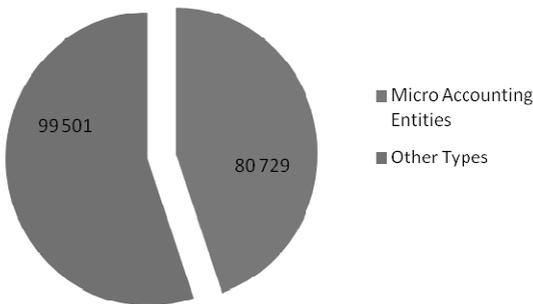
January 2014. Mentioned in previous paragraphs, the main purpose was to prepare simplified set of forms for smaller businesses which comply with national accounting legislation in the Slovak Republic. Keeping in mind the basic definition of financial statements and different information needs of various users a new set of forms for financial statements was designed. Comparison of compulsory content forms design for the general financial statements with financial statements for a micro accounting entity is provided in *Table 3*. After a brief analysis a question arises if information provided by the financial statements of a micro accounting entity provides sufficient information for its users. Applying the underlying assumption that financial statements of a micro accounting entity are with no question relevant for all government agencies because they are the creators of the accounting regulation the goal is to examine the possibility of using accounting data by some other users. The best way to test this hypothesis would be examination of data from financial institutions, which provide credit and loans to businesses. Any significant decline of success rate of granting credit or loans, ceteris paribus, would indicate that the level of relevancy declined with introduction of new format of financial statements, but such data are not publicly available. According to Business Alliance of Slovakia no such effect was reported by its members. According to Kubaščíková, Z. and Pakšiová, R. (2015), Subramanyam & Wild (2014) the application of most common financial ratios of liquidity, profitability and leverage used in financial analyzes or predictions is possible on data provided by a financial statements of a micro accounting entity with no significant difference to data provided by general financial statements used before.

**Table 3** Comparison of financial statements length by line entries

	Balance sheet		Statement of profit or loss	
	General form	Micro Accounting Entity	General form	Micro Accounting Entity
accounts reported	150	150	98	98
line entries	145	45	61	38
group total lines	24	9	14	9
account/line ratio	1,24	4,16	2,1	3,38

Source: author

Since it is only very short time period after introduction only limited data are available. Previously mentioned there were 184,258 business legal entities out of which 145,328 had fewer than 10 employees. According to the Register of Financial Statements by Ministry of Finance of the Slovak Republic, which centralizes all collected data from submitted financial statements and provide public access to those data, as of March 2016 a total of 180,230 financial statements of accounting period 2014 were submitted out of which 80,729 were financial statements of micro accounting entities (see Figure 1).



**Figure 1** Number of submitted financial statements for accounting period 2014

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## Conclusions

Based on the presented data the introduction of financial statements for micro accounting entity was a success. The objective to reduce administrative burden of accounting regulations for small businesses was accepted by businesses with no negative effect on the relevance of data provided by the financial statements considering the fact that financial statements are designed to provide information for wide range of users and financial statements designed for micro accounting entities are the briefest one. A rate 44.82 % out of all submitted financial statements of the first accounting period (2014) after adoption is a huge success. Further ex post analysis of financial statements would be necessary in the future, but only limited amount of data was available at this time, but there are no signs of significant reduction of the relevance. Key information for financial ratios of liquidity, profitability and leverage are available on data provided by the financial statements for micro accounting entity. Common practice for information need of users, such as creditors, which seek different information not

provided by the financial statements, is to ask for a more specific and current data regarding on accounting entities' most important business partners including turnover data, detailed information on bank loans, financial assistance and financial leases to perform further analyzes.

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