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Influence of Classification of Accounting Entities for Reporting in the Context of Legislative Changes[1]

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Abstract
Constantly changing accounting legislation brings about the addition of new groups of entities in response to adopted amendment no. 352/2013 Coll. to the Accounting Act with effect from 1.1.2014 by a directive of the European Parliament and of the Council 2012/6/EU has allowed Member States of the European Union to reduce the bureaucratic burden of accounting and preparing financial statements. The largest change in the Accounting Act is introducing a new type of entity "micro entity". Classification of accounting entities for small entities and large entities was expanded with effect from 1.1.2015. Each of these accounting entities has special rules for preparing financial statements. To a certain extent the legislation allows the choice of entity classification by size criteria. The right choice has an impact on the processing demands of the financial statements of accounting period 2015 and for the economic decisions of managers and external users in 2016. The aim of the article is to provide overview of the new groups of entities and characterize these entities and the legislation under which the procedure for accounting and reporting is conducted.

Keywords
Micro entity, small entity, large entity, accounting principles and methods, amendment, financial statements.

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Introduction

Amendments and additions, which have been adopted by amendment No. 352/2013 coll. to Act No. 431/2002 coll., On accounting as amended (the "Accounting Act"), with effect from 1.1.2014 were intended to reduce the bureaucratic burden associated with accounting and preparing financial statements. It introduced a new concept of "micro entity" in section 2 paragraph 5 and 6 of the Accounting Act, which characterizes micro entity and specifies the conditions which if the entity complies with the two immediately consecutive accounting periods, it can decide whether to be considered as a micro entity or not. (Ministry of Finance of the Slovak Republic, 2002a)

This amendment is followed by another governmental draft of Accounting Act from August 2014, which extends the distribution of entities on micro, small and large, as required by the directive of the European Parliament and Council directive 2013/34 / EU of 26 June 2013 on the annual accounts, consolidated financial statements and related reports of certain types of enterprises ('the Directive on the Annual Accounts") with effect from 1.1.2015. The criteria under which entities are classified into size groups are appointed in the context with this draft.

1. Classification of accounting entities

The size criteria are decisive for the classification of an accounting entity to size groups. The tested elements are:

- total assets – amount calculated from the balance sheet after taking into account the revaluation adjustment and after less accumulated amortization (note: until 31 of December 2014 gross assessed value, from 1st of January 2015 there was a change in the legislation),

- net turnover – gains from sales of products, goods and services, after deduction of discounts, while the accounting entity whose business is earning other revenues such as revenues from sales of products, goods and services, to the net turnover include other revenues after deduction of discounts,
- average calculated number of employees – without specifying the calculation procedure.

Classification of accounting entities by size groups for the purpose of compiling the individual financial statements will be based on fulfilment of at least two of the three conditions defined size for companies and cooperatives and entrepreneur who accounts voluntarily in the double-entry book-keeping listed in Table 1, Classification of accounting entities by size groups from 2015.

Table 1 Classification of accounting entities by size groups from 2015

Size groups	Total assets (A) Net in EUR	Net turnover (T) in EUR	Average calculated number of employees (E)
Micro accounting entity	A ≤ 350 000	T ≤ 700 000	E ≤ 10
Small accounting entity	350 000< A ≤ 4 000 000	700 000< T ≤ 8 000 000	10< E ≤ 50
Large accounting entity	A > 4 000 000	T > 8 000 000	E > 50

Source: The authors

Accounting entities will need to change their status, if they exceed or do not fulfil the size criteria in two consecutive accounting periods (at least two). Reclassification to size category will always be performed from the next accounting period.

Only **newly formed accounting entity** has a choice of size classification at its own decision and remains in this size group in a consecutive accounting period as well.

When an accounting entity decides to use advantage of micro entity it is obliged to do so in all accounting periods if it satisfies the established criteria in order to ensure comparability of data in the financial statements. An entity that fulfils the criteria for micro entity may decide to be processed as a small entity. According to the Accounting Act, as in force until 31 December 2014, when an entity decided that it is not seen as a micro entity, from January 1, 2015 it will be considered automatically a small entity.

In assessing the size criteria for changing accounting period is examining the conditions for shorter periods incurred in:

- creation of an entity,
- a change in the accounting period from calendar year to business year, business year for another business year or the business year to the calendar year,
- discontinuation of the entity.

The entity shall proceed to the classification of the above mentioned size classes for the first time since January 1, 2015, based on the data compiled financial statements for the year 2014. If an entity applies the accounting period **calendar year**, the size criteria will be assessed as at 31 December 2014 and accounting period immediately preceding 31 December 2013.

If an entity has an accounting period of the **business year**, assesses compliance, respectively exceeding the size criteria for the accounting period beginning in the calendar year 2015. This means that if an entity has a year from 1.4.201x to 31.3.201x + 1, the size criteria will be considered when preparing financial statements for the period April 1, 2014 to March 31, 2015, and the period immediately preceding March 31, 2014.

2. Financial statements of accounting entities

2.1. Micro entity

A micro entity is considered to be an entity fulfilling the criteria set out in the Table 1 for two consecutive accounting periods, but also such entity that two of the criteria of size exceeded in only one of two consecutive accounting periods. Existing micro entity is not entitled to act as a micro entity, if specified criteria exceeded in two consecutive financial accounting periods, it means no longer fulfils the size criteria.

For micro entity could be not considered an entity that:

- does not satisfy the size criteria,
- was considered micro entity, but in two consecutive accounting periods exceeded the size criteria,
- prepare financial statements in accordance with International Financial Reporting Standards,
- is registered with the National Bank of Slovakia,
- is the public interest entity.

Benefit from the possibility to be a micro accounting entity is manifested at two levels - in the area of accounting and reporting.

In the field of **accounting** for the said benefits for micro entities are that securities and shares valued when initially recorded by acquisition cost and stay at this evaluation for the date of the financial statements as well. Assets and liabilities are not measured at fair value and assets are not valued by the equity method.

The basic legal norm which concerns the area of accounting for all entities is the Accounting Act. Accounting methods for all entities are enshrined in Measure of the Ministry of Finance of the Slovak Republic of 16 December 2002 No. 23054/2002-92, On stipulation of details of accounting procedures and framework chart of accounts for entrepreneurs keeping double-entry accounting ("accounting procedures"). (Ministry of Finance of the Slovak Republic, 2002b)

Reporting of individual items in the financial statements for new types of entities requires the need for approval of new measures for each group of accounting entities.

For **micro entity,** Measure of the Ministry of Finance of the Slovak Republic no. MF / 15464 / 2013-74 of 11 December 2013 approves defining details of the arrangement, marking, and content specification of items of an individual financial statement and extent of data determined for publication from an individual financial statement for micro entities ("measure of the financial statements for micro entities"). This measure was used for the first time for the preparation of financial statements of micro entities as of 31 December 2014. (Ministry of Finance of the Slovak Republic, 2013)

According to amendment no 352/2013 Coll. to the Accounting Act, it is allowed to compile financial statements in the so-called "**short form**" for micro entity (balance sheet, income statement and notes in short form). Details of their preparation determine the measure of the financial statements for micro entities The specimen is Appendix no. 1 to measure of the financial statements for micro entities.

General requirements for the first page of this Appendix and its individual parts of financial statement of micro entity are labelled:

- Úč MUJ 1 - 01 for Balance sheet;
- Úč MUJ 2 - 01 for Profit and loss statement;
- Úč MUJ 3 - 01 for Notes.

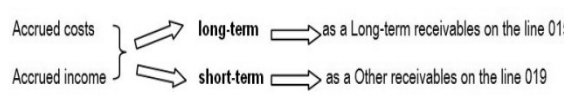
The first financial statements in simplified form were possible to compile for micro entity for the financial year beginning on 1 January 2014. The figures are reported in the financial statements of micro entity in euros in the whole.

Simplification of reporting data of micro entity covers the following areas:

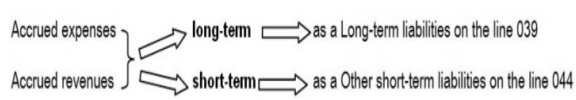
- assets are only recognized in net value (after taking into account accumulated depreciation and provisions)
- the balance sheets are not reported separately accruals, but reported within receivables and payables,
- the balance sheet and income statement are more aggregated,
- a significantly reduced extent of the information provided in the notes.

Accruals are not recognized in the **balance sheet** of micro entity separately, but are recognized concurrently with the following items of assets and liabilities as follows:

Item on the asset side



Items on the liabilities side



Profit and loss statement of micro entity has also an abbreviated range on two sides and is part of the Appendix 1 to measure the financial statements for micro entities. The individual items are aggregated to the level of some account groups. Profit and loss statement also contains an indicator – the added value which involves production, consumption and production margins. Although these indicators are not isolated as in the profit and loss for the small and large entities, it is not difficult to find them.

Information disclosures in the **notes** of micro entity usually have three A4 pages. The required elements include:

- general information (e.g. name, address, information about the consolidated group, the average number of employees),
- information on the procedures adopted (e.g. comply with the assumptions going con-

cern, the accounting principles and methods),
- information that explains and complements balance sheet and profit and loss (e.g. the information about liabilities, own shares, executive body of the company).

As the most significant changes in the financial statements have occurred the first in micro entities, therefore it is dedicated to the largest part of this contribution of the micro entity.

Other accounting entities (small and large) for compilation of financial statement to 31 of December 2014 followed the existing Measure of the Ministry of Finance of the Slovak Republic of 31 March 2003, No. 4455/2003-92 defining details of the arrangement, marking, and content specification of items of an individual financial statement and extent of data determined for publication from an individual financial statement for entrepreneurs using double entry bookkeeping ("measure of the financial statements"). (Ministry of Finance of the Slovak Republic, 2003)

2.2. Small entity and large entity

The amendment to the Accounting Act with effect from 1 January 2015 brought two new entities – small entity and large entity. Criteria for classification of accounting entities in the small accounting entity are presented in the second row of Table 1 and into large accounting entity are presented in the third row of Table 1.

Small and large entity process bookkeeping during the accounting period according to the current accounting procedures is applicable to all types of entities. **Small accounting entity** uses the **first time in 2015** for the preparation of financial statements new Measure of the Ministry of Finance of the Slovak Republic no. MF / 23378 / 2014-74 of 3 December 2014 defining details of an individual financial statement and extent of data determined for publication from an individual financial statement for small entities ("measure of the financial statements for small entities"). (Ministry of Finance of the Slovak Republic, 2014b)

Large accounting entity in preparing the financial statements for the **first time in 2015** according to the new Measure of the Ministry of Finance of the Slovak Republic no. MF / 23377 / 2014-74 of 3 December 2014 defining details of an individual financial statement and extent of data determined for publication from an individual financial statement for large entities ("measure of the financial statements for large entities"). (Ministry of Finance of the Slovak Republic, 2014a)

Development of legislative changes for different types of entities in the financial statements is presented in Table 2, Overview of legislative changes for the preparation of financial statements.

Table 2 Overview of legislative changes for the preparation of financial statements

Date of compilation Financial statement	Micro entity	Small entity	Large entity
31 December 2013	measure of the financial statements		
31 December 2014	measure of the financial statements for micro entities	measure of the financial statements	
31 December 2015	measure of the financial statements for micro entities	measure of the financial statements for small entities	measure of the financial statements for large entities

Source: The authors

Financial statements of small and large entities have the same basement of statements, as well as general requirements, where they can indicate whether they are large or small. Individual parts of financial statement for small and large entities are labelled:

- Úč POD 1 - 01 for Balance sheet;
- Úč POD 2 - 01 for Profit and loss statement;
- Úč POD 3 - 01 for Notes.

The most significant differences between small and large accounting entities are in the compilation of notes, especially in the range. For a complete overview of reporting differences for all three types of accounting entities see Table 3, Differences in reporting.

Table 3 Differences in reporting

Description	Micro entity	Small entity	Large entity
Balance sheet	Simplified, 2 pages, 45 lines	8 pages, 145 lines	
Profit and loss statement	Simplified, 2 pages, 38 lines	4 pages, 61 lines	

Notes (contents for example):	Simplified, 3 pages or more	Simplified, 5 pages or more	Not simplified, 11 pages or more
▪ Name, address	Yes	yes	yes
▪ Description of activity performed	No	yes	yes
▪ Number of employees	yes (only some data)	yes (only some data)	yes
▪ Overview of long-term assets	No	no	yes
▪ Overview of reserve	No	no	yes
▪ Statement of changes of equity	No	no	yes
▪ Cash flow	No	no	yes
▪ Related party transactions	yes (only for other financial duties and contingent liabilities)	no	yes
▪ Events after the date on which financial statements are compiled	No	yes	yes
▪ Accounting principles and methods	Yes	yes	yes

Source: The authors

Conclusion

The aim of this paper was to provide an overview of changes in financial legislation concerning classification of entities for the latest period. The legislation has passed significant changes in the financial statements and reporting data relative to the introduction of new types of entities. Many changes in data reporting in the financial statements related to the interdependence of businesses and transfer pricing. As shown in Table 2, accountants and managers who are responsible for the financial statements must not only monitor changes, but also study the possibilities of each classification allows. With the right knowledge of the legislation so they can make decisions that allow either to simplify the financial statements in the case of micro entity, or on the other hand, provide more comprehensive information for potential investors and cooperation in the case of small and large entity. SM

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Ministry of Finance of the Slovak Republic. (2014a). *No. MF / 23378 / 2014-74 defining details of an individual financial statement and extent of data determined for publication from an individual financial statement for small entities.* Bratislava: Ministry of Finance of the Slovak Republic.