APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) IN THE SLOVAK REPUBLIC

APLICAREA STANDARDELOR INTERNAȚIONALE DE RAPORTARE FINANCIARĂ (IFRS) ÎN REPUBLICA SLOVACĂ

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Abstract: *In recent years, the attention was focused on international harmonisation of accounting as a requirement for the global economic development. The result of an effort to harmonise accounting is the creation of accounting standards. The accounting standards serve to equal the content of accounting reports in various countries. The accounting report prescribed by Slovak legislation does not aim to inform market participants. Statements defined by legislation cannot be used for objective decisions of foreign investors. Application of European parliament and Council regulations about the IFRS application into accounting legislation of member states allowed comparable accounting information for applying of economic decisions. In this paper we characterise the IFRS development and their application in the Slovak Republic.*

Key words: *International Financial Reporting Standards, accounting statement in the Slovak Republic, consolidated accounting report, individual accounting report.*

INTERNATIONAL FINANCIAL REPORTING STANDARDS

History of the International Financial Reporting Standards – IFRS begins in 1972, when tenth World Congress of Accountants in Sydney created the International Accounting Standards Committee – IASC. IASC was consistently based in 1973 in London by the IASC Foundation; nine states contributed to its establishment – USA, Canada, Australia, the Great Britain, France, Germany, the Netherlands, Japan and Mexico. The IASC

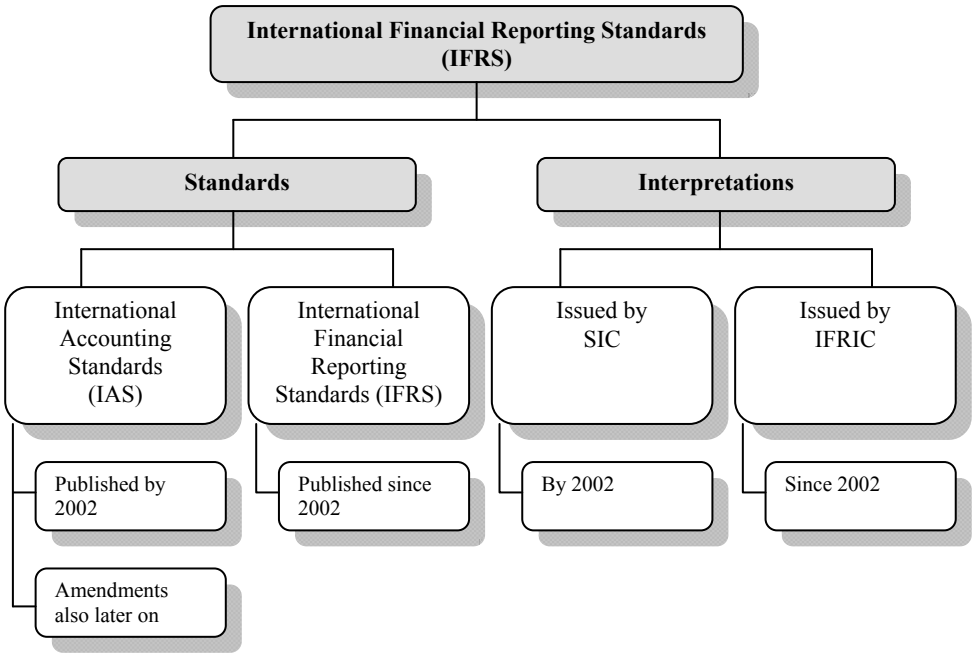
closely cooperated with the other accounting organisations. The first creation of standards focused on creation of basic rules what caused criticism since they were unclear as far as they aimed to implement several different accounting practices used in various countries. Based on this criticism, the IASC started to orientate itself on creation of user-friendly principles in order to eliminate mistakes.

IASC terminated in 2001 and its functions overtook the International Accounting Standards Board – IASB. During the IASC functioning there were created 41 standards marked as International Accounting Standards – IAS, some of them were cancelled or unified with other ones. Many of them are still valid but amended. The new standards issued from 2002 are called International Financial Reporting Standards – IFRS. Their numbering started from one. So far, there are nine IFRS standards created.

When applying the IFRS in practice, several questions concerning the showing of property, commitments, own capital, revenues, and costs arise. These questions are solved by the International Financial Reporting Interpretation Committee, created in 2002, as a replacement organisation of Standing Interpretation Committee – SIC. The task of the Committee for Interpretation of International Financial Interpretation is to prepare final opinions – interpretations that serve as the main interpretation of each standard, but also as a primary source of accounting, where basic standards are not existent and it thus create accounting progresses and the rules for unified, accurate and correct use of IFRS.

Title IFRS is used for standards issued after 2002 in order to emphasise the fact that these standards do not serve for common accounting but for reporting. This term is used in two ways:

- the new series of standards issued by IASB is marked by it (at presence IFRS 1 to IFRS 9)
- joint term for documents issued by IFRS since 2002, IAS, interpretations issued by IFRIC and also issued by SIC by 2002.



Graph No. 1: System of International Financial Reporting Standards

The significance of IFRS for the European companies was growing in connection with closings of Lisbon summit in March 2000. This summit dealt with the question of improvement of internal EU market in the area of financial services. The European Committee were obliged to elaborate required documents.

During 1990's, the IASC started cooperation with the International Organization of Securities Commissions – IOSCO, what is a world-wide organisation associating regulators of the security markets. Slovakia is represented by the National Bank of Slovakia. The result of this cooperation is the IOSCO recommendation from May 2000 for its members to ask for the IFRS accounting reports from companies issuing the securities on stock.

In July 2001, the European Financial Reporting Advisory Group – EFRAG was created under the contribution of private sector. Its role is to provide a technical support for the EU and IASC executive organs. In the

same year was approved the European parliament and Council direction dealing with the "fair value" principle in valuating of several groups of financial properties and commitments.

The further breaking period was implementation of IFRS in 2002, when the European union by the European parliament and Council direction decided in July 19th, 2002 that it will not work out any further directions and it will require the application of European Committee International accounting standards within the EU countries. The European committee requires from all companies providing the consolidated accounting report and having securities quoted on Union regulated market to make up the consolidated accounting reports according to IFRS since 2005. The exceptions concern companies with debit quoted securities or those making up the accounting report according to the other internationally accepted principles such as US GAAP, or those applying the IFRS only since 2007. National legislation of member states can spread out use of international standards also on individual accounting report of companies not having quoted securities.

ACCOUNTING REPORT IN THE SLOVAK REPUBLIC

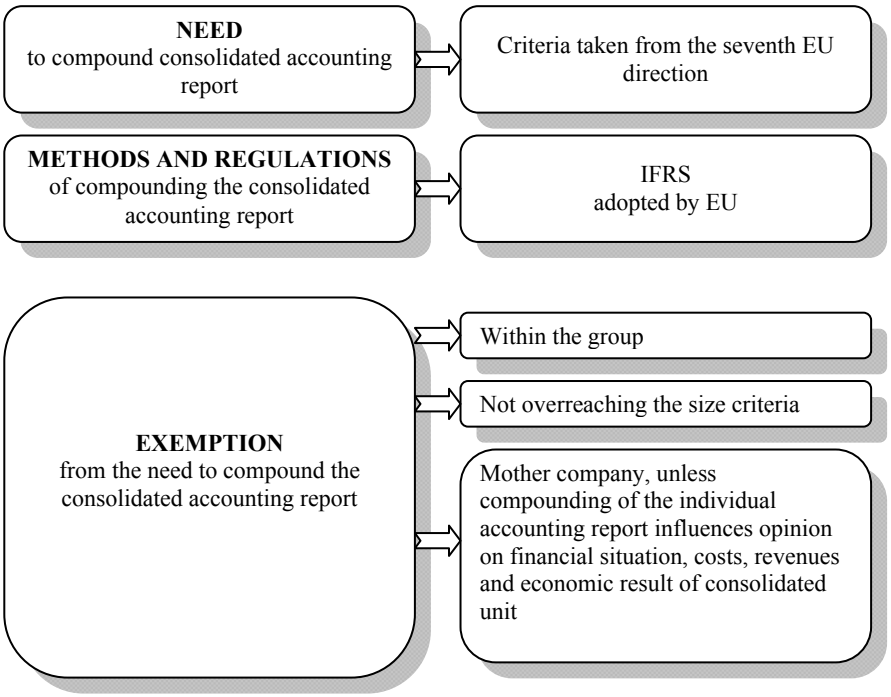
The accounting in the Slovak Republic passed significant changes within the last two decades. The act 563/1991 about accounting became effective in 1993 and it was the first act about accounting implementing principle of carefulness with the emphasis on correction items and reserves. This act was amended for several times in order to harmonise the Slovak accounting with the one valid in the European Union, mainly with the fourth, seventh, and eighth direction. In 2003, the brand new act about accounting came into being, replacing so far valid act about accounting. This new act was also amended for several times.

The Slovak Republic stated in an Act about accounting the need to compound all consolidated accounting reports according to IFRS approved by the European parliament and Council since 2005. Since 2006, the Act spread out the need to report according to IFRS also the individual accounting reports after fulfilling stated criteria.

Consolidated accounting report

Consolidated accounting report is compound by mother company, which fulfilled in every of the two following periods at least two of these conditions:

- total sum of the mother accounting entity's property is higher than 17 000 000 euro,
- net turnover of mother accounting entity and daughter accounting entities is higher than 34 000 000 euro,
- average calculated number of employees of mother accounting entity and daughter accounting entities overreached 250.



Graph 2: Compounding of consolidated accounting report

A) Individual accounting report obligatory drawn according to IFRS

The need to draw the individual accounting report according to IFRS have two groups of accounting entities in the Slovak republic:

1) ***the first group*** consists of: bank, subsidiary of foreign bank, Export-import bank of the Slovak Republic, administration company, subsidiary of administration company, insurance company except of health insurance, assuring company, subsidiary of assuring company, complementary income company, income administration company, Stock exchange market, Railways of the Slovak Republic;
2) ***the second group*** consists of trading companies (except of those belonging to the first group) fulfilling the two following accounting periods at least two of the following conditions (size criteria):
   - total sum of property overreached 165 969 594,40 euro,
   - net turnover overreached 165 696 594,40 euro,
   - average calculated number of employees in one accounting period overreached 2 000.

Trading companies are incorporated companies, limited companies, publicly trading companies and commanded companies.

B) Individual accounting report voluntarily compound according to IFRS

Individual accounting report according to IFRS can be voluntarily compound by two groups of accounting entities:

1) accounting entity that issued securities in given accounting period and they were accepted on regulated market – security issuer in case of not fulfilling the size criteria; this exemption is not valid for those accounting entities named in section A.1.
2) accounting entity as a tradesmen with securities or as a subsidiary of tradesmen with securities and is not a bank at once, subsidiary of foreign bank, administrative company or its subsidiary.

If the accounting entity starts to compound the accounting report according to IFRS, it cannot return back to compounding the accounting report according to SR legislation (though not fulfilling the conditions).

There are almost 100 000 accounting entities in the Slovak Republic registered in business register and are obligatory to do double-entry accounting. Out of them

- about 50-100 are obliged to compound consolidated accounting report according to IFRS,
- about 150 accounting entities are obliged to compound their individual accounting report according to IFRS,
- about 250 accounting entities can, but do not have to (choice) to compound the individual accounting report according to IFRS.

IFRS are not treatment for everything, but it is the best on what an expert world was capable to agree and unify within the last three decades. IFRS are not about providing the accounting (it means they are not about common accounting, they do not have prescribed accounts, their contents and correspondents), they do not solve a technical part of accounting. It does not mean, though, that it is not possible to account according to IFRS.

There are not valid directions in an act about accounting others than IFRS for those accounting entities compounding the accounting report according to IFRS. On the other hand, only those with general characteristics are valid, such as statements about the accounting documents and their requirements, including opening and closing of accounting books, archives of books, stock-taking, accounting reports, verifying of accounting reports by auditor, annual report, publishing data from accounting report, fines.

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