MISKOLCI EGYETEM
UNIVERSITY OF MISKOLC

Achievements of Thesis

HUNGARIAN AND SLOVAK ACCOUNTING PRINCIPLES WITH REGARD TO INTEGRATION REQUIREMENTS OF EUROPEAN UNION

Suhányi Erzsébet

MISKOLCI EGYETEM 1735

Miskolc, 2003

UNIVERSITY OF MISKOLC
FACULTY OF ECONOMICS

Topic of Postgraduate Study: COMPANY'S THEORY AND PRACTICE
Supervisor: Dr. Nagy Aladár, Doctor of sciences

HUNGARIAN AND SLOVAK ACCOUNTING PRINCIPLES WITH REGARD TO INTEGRATION REQUIREMENTS OF EUROPEAN UNION

Ing. Suhányi Erzsébet

Consultant: Dr. Gál Jolán,
Associate Professor, Candidate of sciences

Miskolc, 2003

C O N T E N T S

"Double entry accounting is one of the most sophisticated human inventions, and every capable entrepreneur should apply it."
Goethe

1. THE GOAL AND ACTUALITY OF RESEARCH

1.1 The goal of research

The importance of information on accounting in a free market economy is gradually increasing at managerial decision-making process in the stage of preparation, decision-making and controlling. Accounting is closely connected with operating process but first of all with decision-making process and with users needs on accounting information. The management quality does not depend only on improvement of operational means but it is reflected in demands on topic and accurate information. Topic, actual and accurate information can be obtained by well-performing information system of an enterprise.

Accounting belongs to economic sciences, possessing a compact and worked-out theory; it reacts to changing political and economic conditions, which were stated by goals and needs of management. Accounting is the most important information source; it is also called "the international language of business".

The goal of my research:

- **To analyse the role of information on accounting in information system,** which will be the base for processing this topic and enables to come to conclusions. Enlarging the topic I am presenting a historical view of **origin and development** of accounting. I will compare the history of accounting in four highly developed countries – the Unites States of America, England, Germany and France. I will focus on detailed presentation of history of accounting in Hungary and Slovakia.

- **Comparison and definition of differences of accounting principles in Hungary and Slovakia.** In November 1989 after the change of political system in Hungary and Slovakia there arose a possibility for political and economical transformation and compatibility with highly developed western democracies. This transformation influenced the economical activities of both countries, and along with economical cooperation the investments of Hungarian and Slovak entrepreneurs have been preferred. It is necessary for a Hungarian entrepreneur to known the Slovak accounting principles, to know and be able to apply the information that is contained in financial statements. This knowledge helps entrepreneurs in appropriate decision-making on investments and other business activities.

- **In order to harmonize accounting principles we have to assess the differences in current system of principles.**
  There are three different accounting systems worldwide which are valid in national accounting principles:
  1) accounting standards of EU (4^{th} and 7^{th} directive referring to general guideline on preparation of financial statements),
  2) International Accounting Standards –IAS, and
  3) United States Generally Accepted Accounting Principles – US GAAP.

I think my research will not be complete if I do not investigate the theory and praxis of previous accounting systems underlining the valid accountancy standards of EU and the International Accountancy Standards. According to detailed analysis of current accounting system, the differences among them can be stated and necessary corrections can be defined.

1.2 The actuality of research

The main aim in the field of foreign policy of Hungary and Slovakia is to be admitted to the European Union. There are many conditions to be fulfilled if they want to achieve full membership, e.g. harmonisation of law system and of accountancy that is only part of it. In the preparatory process of admission to the European Union the complete harmonisation of accountancy system has to be achieved. There are some international movements in the field of financial statements according to unequivocal directives and these movements can influence the deadline of tasks to be fulfilled until our admission. Therefore it is necessary to survey trends in the International Accounting Standards and to study the structure of operational bodies responsible for these trends.

The problem is pressing due to directives 1606/2002 of July 19, 2002 stated by resolution of European Parliament and Committee of European Union. In accordance with this resolution of 1st January 2005 all listed companies are obliged to prepare their consolidated financial statements in accordance with the International Accounting Standards. As a consequence of this resolution the member countries can enable or lay that also the non-listed companies have to present their consolidated financial statements or financial statements in accordance with International Accounting Standards. The aim of regulation is to secure adaptation of International Accounting Standards within a country and to harmonise accountancy.

2. SOURCES, DATABASES AND PROCESSING OF RESEARCH

To achieve the goal of my research I have studied the Hungarian and Slovak accounting principles and the main worldwide accepted ones. I have processed the differences from other principles and I highlighted the different interpretation of current principles.

All the assembled and processed international and domestic technical literature and the results of my research work were presented in international and domestic conferences and professional magazines. During my research work I took into consideration all the opinions, remarks connected to the results of my research.

3. THE PROCESS OF RESEARCH

a.) **Definition of research topic.** I was searching for the answer how the Hungarian and Slovak accounting standards differ from each other. Further I studied how they meet the demands on harmonisation and if there still exist some fields and principles which have to be modified.

b.) **I carried out historical overview and evaluation.** The basis for my research work was both domestic and international technical literature. During processing my topic I assembled and processed 42 expert articles, 10 laws and directives, 53 technical literature and case studies, all these are covered in references.

c.) **Assessment of scientific hypotheses.** The basic principle of my research work was that both countries prove similar economic development and this one is reflected in similarity of accounting standards. The accounting principles of both countries differ from those in international environment.

d.) **I analysed** in detail the 4^{th} directive of the European Union, the International Accounting Standards and the accounting principles of both countries.

e.) **I came to conclusions** according to detailed analysis and comparison.

4. THE STRUCTURE OF ANALYSIS

The analysis is divided into four parts and it has the following sequence of consideration:

1. chapter: Accountancy

In this chapter I dealt with historical overview of assessment and development of accountancy. I defined accountancy and its tasks according to theories presented in domestic and international technical literature. I have carried out a survey on elements of accounting information system, i.e. financial accounting, management one and accounting of environment protection. I have appointed the accounting information system to information system of an enterprise.

2. chapter: Development of accountancy and its current position

I made a survey into the development and current position of accountancy in four selected countries. These were: the United States of America, England, Germany and France. Further I analysed in detail the development of accountancy in Hungary and Slovakia.

3. chapter: Comparison of currently valid accounting principles in Slovakia and Hungary

In this chapter I compared the accounting principles valid in 2002 in Slovakia and Hungary. I presented the directives of Slovak Accountancy Law. I compared in tables the financial statements (balance sheet, income statement and notes to financial statements) and annual reports prepared by enterprises applying double entry accounting, then I evaluated the stated differences. I introduced examples for demonstrating these facts.

4. chapter: Harmonisation of accountancy

In this chapter I focused on features of three accounting standards - the European Union Standards, the International Accounting Standards and US Generally Accepted Standards, then I compared the trends influencing the creation of standards in the European Union, Hungary and Slovakia. Further I considered about the 4th directive of the European Union, Hungarian and Slovak standards and the International Accounting Standards. In this chapter I also dealt with differences in standards in Hungarian and Slovak system.

"The financial statements are the self-portrait of a company which is drawn by the manager in company with accountant but the colours are defined by the owner."
saying

5. FINDINGS, ACHIEVEMENTS AND NEW SCIENTIFIC CONCLUSIONS

5.1 Findings

1. Contents, goal and place of accountancy

At assessment of accountancy I have introduced six definitions stated by various authors. The common features of definitions pointed out the content and goal of accountancy:

a) The process of accountancy is in fact **service providing information.** Service providing information is analysed in detail in these definitions (measuring, valuation, etc). **The economic information** belongs to the field of accountancy.

b) When pointing out the object of information service we have to highlight **the business activity of a selected economic unit.**

c) The aim of accountancy is to provide **service for internal users** who are responsible for decision-making in the enterprise.

d) The accountancy is a means of corporate advertising and promotion intended for external users and for those of decision-making.

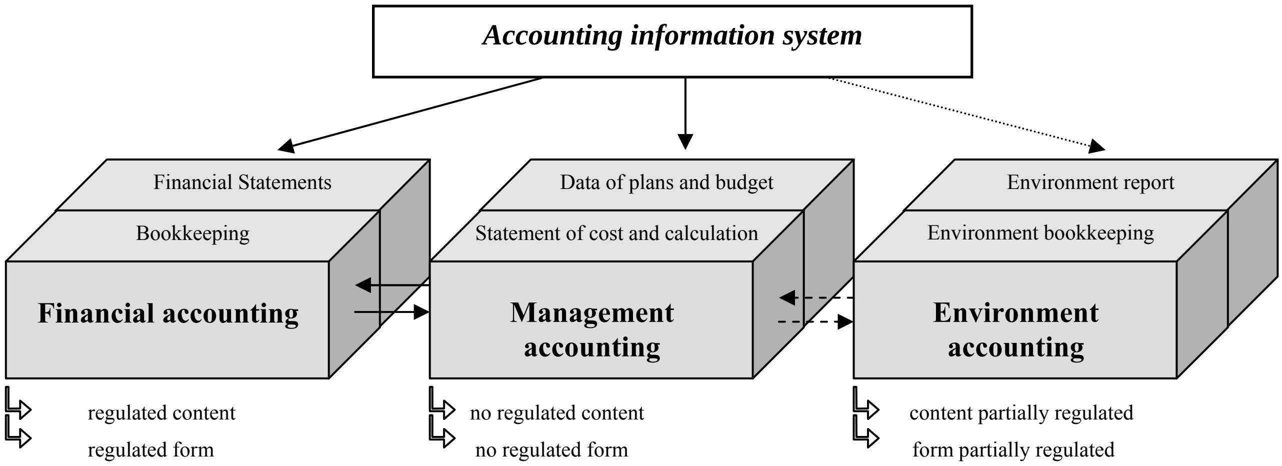
In my work I have come to conclusion, according to processed technical literature, that accountancy is first of all corporate science, it was created and developed as **a means of corporate management,** accounting provides information also for other industries and as well in national and international levels.

Nowadays information is provided by information system. **One of the important subsystems of corporate information system is the management information system**, which enables to get selected and processed information for demanding decision-making process. The **accounting information system can be considered as part of**

management information system and when creating it we have to take into account special features of company and requirements on information.

2. Amendment of accounting information system elements by environmental accounting

The accounting information system according to range of processed tasks, users of provided information can be divided into 2+1 fields. These elements or fields are mutually dependent stages of accounting development and they prove a common information system. The basic elements of accounting information system are financial accounting, management accounting and accounting of environment protection.



1. figure: **Structure of Accounting Information System**

3. Ascertainment from comparison of accountancy development and its current position in the United States, England, Germany and France

The development of accountancy and its legal regulations differ from country to country. I have compared the development of accountancy and its current position in four highly developed countries. All these data are demonstrated in the following tables:

1. table: **The development of accountancy and its current position in four selected countries**

	USA	England	Germany	France
Development	**1911 -** „blue sky law" governs securities businesses. **1934 -** Security Law. The Securities Exchange Commission (SEC) was founded which determines the exchange rules for companies and demands on accounting system. The book entry system includes in fact the business accountancy. The Council of Accounting Principles (CAP) creates the Generally Accepted Accounting Principles (GAAP). **1959 – 1973** Standards are stated by Accountancy Principles Board (APB). **From 1973** Financial Accounting Standards Board (FASB) states Standards.	**1947 –** The Corporate Law contains the accounting principles. From midst **1960-ies** reconciled accounting principles, creation of unequivocal standards. Corporate Law prescribes its compulsory application. **1970 -** creation of (ASSC). **1976 -** The ASSC is renamed to Accounting Standard Council (ASC). **1985 -** Corporate Law containing the main parts of financial statements, line items of each statement and valuation methods **1990 -** The Financial Reporting Council (FRC) is the main manager of standardisation. The Accounting Standard Board (ASB) has the task to create compulsory standards.	**The end of 18th century -** collection of economic directives containing also the accounting principles. **1937** - Compulsory Empire Accounting Standards. **1945** - The previous standards are not compulsory. The Commercial Code is the most important source of regulation. It is completed by IKR – recommended accounting principles and from the laws deducted generally accepted regular accounting principles (GOB). **1985** - Accounting Principles Law that is part of Commercial Code. It governs unequivocally the accounting system (corporate and entrepreneurial ones). **1999** - The German Accounting Standard Council (DRSC) was created. It issues valid standards for concerns and they are protected by law. The German Auditors Association (IDW) works out the standards for auditing and accounting processes.	**Beginning of 1940-s** The Commercial Code determines the principles for accounting and for preparation of financial statements **1947** - PCG –issue of general accounting principles, it is a basic law and its directives are compulsory. It contains the corporate and entrepreneurial accountancy and preparation of financial statements. It has unequivocal accounting principles. The State Accountancy Council is responsible for preparation of PCG and in accordance with PCG principles it works out standards. **1957 -** amendment of PCG **1984 -** amendment of PCG **1998 -** after revision of PCG the Accounting Principles Law was worked out. The Standard Council (CRC) was founded. Its task is to legalize the standards in the form of directives. The Council of Urgent Cases prepares explanations to the standards. They are not compulsory.
Protection of business interests	It protects the interests of owners and lenders.	It protects the interests of investors and lenders.	Until 1985 it protected the government's interests. From 1985 it protects the investors, lenders and tax offices' interests.	It protects the interests of government as well as of owners; it is open towards lenders.
Philosophy	True and fair view/fair presentation.	True and fair view/fair presentation.	Until 1985 true – accurate – complete philosophy From 1985 - true and fair view/fair presentation.	To 1985 philosophy of true regularity. From 1985 -true and fair view/fair presentation.
Controlling	The AICPA and Securities Exchange Commission (SEC) in a wide range support obeying rules in the case of listed companies.	Auditors and the stock market do not have an important position. From 1990 the FRRP checks the enterprises.	Auditors and tax revisors	Auditors and tax revisors

Current principles	**Accounting principles:** - FASB – its task is to create standards (GAAP)	**General principles:** - The Corporate Law includes them; at the same time it determines the application of standards. **Accounting standards:** - FRC- its task is checking the standards and management of ASB. - ASB – its task is creation of generally accepted standards. The standards are principally basic ones. Therefore it is necessary to issue explanations and recommendations (SORP), obeying them are not compulsory.	**General principles:** - The German Commercial Code governs principally the accountancy system. **Accounting Standards:** - DRSC – it issues compulsory standards for syndicates. - IDW – it works out the viewpoints to all fields of accountancy. According to these resolutions the national standards and partial regulations are determined. Keeping them is compulsory only for IDW members.	**General principles:** - The Commercial Code estimates the accounting principles and financial statements in certain areas. - The Corporate Law contains principles of consolidated financial statements. - PCG- includes the most important legal regulations; from 1998 it has become the Accountancy Law. - CNC- is responsible for predefinition of those laws containing accounting principles in accordance with government directives. **Accounting Standards:** - CRC - its task is creation of standards - Council of Urgent Cases – issues explanations, their keeping is not compulsory.
Preparation of financial statements	The financial statements of entrepreneurs are developed according to US GAAP.	According to ASB standards. Listed companies operating on international stock market prepare their financial statements in accordance with International Accounting Standards as well.	In accordance with the Commercial Code. Only those companies operating on international markets can choose among principles of IAS, US-GAAP or the German Commercial Code.	A listed company prepare its financial statements according to national and international principles as well.

We can say that at the end of 1920-s **the different fields of accountancy were defined,** nevertheless there are variants in application of accounting principles. In the USA and England the accountancy does not possess an unequivocal system, on the other side Germany and France have not only created them but also introduced into life. In English-speaking countries the accountancy was developing very slowly and its application did not become compulsory. In the Continent there was a rush creation of principles and they become immediately compulsory. In Germany after World War II, the accountancy became looser and they focused on development of cost accounting and budgetary accounting. In English-speaking countries the development had an impact on different fields of accountancy however a significant development can be traced in management accounting. In France the development can be seen only within unequivocal accountancy system.

At the beginning of 1960-s started the trend with **the aim to harmonise the accountancy system**, which can also help worldwide integration. As we can see nevertheless **there are still significant differences** in some countries concerning the accounting principles and preparation of financial statements.

4. Comparison of accountancy development in Hungary and Slovakia

In the 2nd chapter of my work I have processed the development of accountancy in Hungary and Slovakia as well. In both countries it can be divided into **parallel three stages:**

Before and during World War II both countries were influenced by German system. Defeating Germany meant for both countries not only freedom but also it brought about many political and economical changes. In accordance with Soviet planned economy there arose a demand on introduction of normative planning system. This trend had an impact on the field of accountancy. **From 1947 in Hungary and Slovakia regulations came into force to unify accountancy**. There were regulated the application of compulsory framework accounting principles and preparation of financial statements.

The second stage began in the midst of 1960-s. The main goals of worked out reform were to add to the features of planned system those of market economy and to prevent from disadvantages of market economy. In this case it was more important to provide the corporate performance than fulfilment of centrally planned tasks. This reform brought about the modernisation of accountancy in both countries. New laws on Accounting came into force **in 1968 in Hungary and in 1971 in Czechoslovakia.** These laws governed the accounting principles within a company (interdepartmental accounting).

In the years 1988 - 1989 there were significant political and economical changes. Slovakia, Hungary and other eastern-European countries turned to market economy. In the economy there appeared enterprises and private ownership. The privatisation of state sector was required and opening of economy. The consequences of these changes were reflected in new definition of features and position of accountancy. **The base of new accountancy system was laid down in Hungary by Law XVIII/1991 and in Slovakia the Accountancy Law 563/1991; both laws were adjusted to EU directives.**

5.2 Achievements

1. Differences found out by comparison of Accounting Principles of Hungary and Slovakia

I analysed in detail **the valid accounting principles of both countries in 2002,** and I came to conclusion that there exist differences between two systems. In Hungary accounting principles provide more possibilities for enterprises. In Slovakia the law has a framework feature, but for preparing financial statements and managing of accounting there are directives of the Ministry of Finance. There is an alternative at presenting of cash flow statements, the other statements are prepared due to prescribed forms. Concerning **balance sheet and income statements there is only one alternative to** each one, on the contrary, in Hungary there are two alternatives for presenting balance sheet and four ones for income statement. Notes have only one form; it means there is no entirely complete and simplified version at your disposal. **In Hungary each enterprise has to prepare its accounting policy**. In Slovakia there is no special demand on preparing of internal principles, those valid in the state are included in internal regulation system.

There are differences in reporting of assets in balance sheet. The Hungarian balance sheet shows the market value of assets (adjustment (+), adjustment (-) (permanent impairment), clearing of adjustments, depreciation over the depreciation plan). The Slovak balance sheet also shows the market value of assets but only up to the book value (adjustment (-), clearing of adjustment, depreciation over the depreciation plan). If the market value is higher than the book value, the difference cannot be recognised.

In Slovak accountancy system there is missing the regulation of **accounting services**. Because it is allowed to anybody to do accounting and prepare financial statements, it does not provide real quality of accounting.

It is important to highlight that in Hungary companies before incorporation are obliged to keep accounting. In Slovakia this obligation for companies is valid from the date of incorporation.

Slovak companies applying **accounting with single entry accounting,** in current accounting period differing from those criteria listed in the law, they will be forced to apply **accounting with double entry accounting** from 1st January next year. In Hungary they are obliged to introduce double entry accounting only from 1st January of the second year when they in two following years do not meet the requirements on single entry accounting and on conditions stated by the law.

2. Differences found out by comparison of balance sheet in Slovakia and Hungary

When surveying the balance sheet items from the point of view of content and valuation I found out, that it is possible to compare the Slovak balance sheet with Hungarian one, which is prepared in „A“ version. I have found out the following differences, which are presented in the following part:

Intangible assets - there is a difference in range of one-sum depreciation (low valued intangible assets), in recognition of reorganisation costs and goodwill. In Slovakia it is not allowed to recognise intangible assets in higher value than book value. In Hungary it also does not concern the whole range of **intangible assets**, only patents, copyrights, trademarks and tradenames and intellectual work results can be recognised in higher amount than its book value.

Tangible assets there are differences in one-sum depreciation (low valued tangible assets) and in classification of tangible assets. In Slovakia it is not possible to recognise tangible assets in higher value than book value. In Hungary, except of acquisition of tangible assets, you can recognise tangible assets in higher value than book value. In Hungarian balance sheet, they recognise between tangible assets instead of adjustment to gained property goodwill. In my work I have presented an example for accounting of this item in Slovak accounting.

Financial investments - there are differences only in description of balance sheet line items. In Slovakia it is not allowed to recognise investments in higher value than in book value, but in Hungary it is allowed.

Receivables are divided in Slovakia according to their dates of maturity into short-term and long-term.

Deferred tax asset - in Slovakia if accounting depreciation is higher than that one prescribed by tax regulations, then according to the difference, the tax identified due to tax law, is presented in balance sheet as deferred tax asset. This regulation has to be kept by companies in a group and the other companies have a possibility of choice. In income statements it is presented as a decrease of expenses, in balance sheet as a receivable.

Short-term securities do not belong to a special category in Slovakia; they are shown as financial assets. The value of own shares and deposits is not presented in this part; these decrease the value of equity.

Other assets - in Slovak balance sheet, in part of accruals are presented exchange differences – losses. In Slovakia there are two ways of accounting of exchange differences in measurement as at 31st December. Exchange differences of cash on hand and in bank are accounted for in expenses or revenues, exchange differences in other assets and liabilities are accounted for and recognised as accruals. If there is exchange difference – loss, the company is obliged to create reserve. In Hungary, if acquisition of tangible and intangible fixed assets and patents, copyrights, trademarks and tradenames are connected with credit unsecured by foreign currencies, exchange rate loss as at 31st December is accounted for into financial expenses or expense is accrued. If they accrue expenses, they have to create reserve. In Slovak balance sheet other assets – temporary accounts show also contingencies and estimated prepaid items (debit balance) which accurate value cannot be identified exactly (e.g. receivables against insurance company, if we do not know the exact amount of payment, bank interests, if the bank did not inform us about the accurate sum, etc.).

Presentation of **equity** items differs as well. In Slovakia the balance sheet does not contain fixed capital, but joint stock companies and Limited Companies and state-owned companies are obliged to create statutory reserve account, what is shown in the balance sheet as by law prescribed value of statutory reserve fund. Cooperatives present the value of compulsory capital in the balance sheet as indivisible fund. These statutory reserve accounts can be used for covering the losses or balancing unfavourable operations of company.

In Slovakia line item profit or loss for accounting period shows profit or loss after taxation. It differs from contain of this item in Hungarian balance sheet. In Slovakia the share on profit is accounted for in the next accounting period, after approving the decision of the annual general meeting of shareholders about distribution of profit. **Reserves** are not included in accountancy law in Slovakia. As a consequence the law prescribes creation of reserves. All the given regulations are part of accounting principles issued by the Ministry of Finance. According to this we divide them into three categories:

a) By law prescribed statutory reserves

b) Exchange rate loss reserves

c) Other reserves

The creation and usage of reserves are analysed in detail in my work.

Liabilities – in Slovakia liabilities with maturity over 5 years are not presented in a special category. The classification of short-term reserves differs. In Hungary loans belong to liabilities. In Slovakia they belong to a special category. The social fund is presented in the category of short-term liabilities, in Hungary such social fund does not exist.

Deferred tax liability - in Slovakia if accounting depreciation is lower than that one prescribed by tax law, then according to the difference, by law stated tax is presented as deferred tax liability. This process is compulsory for companies in a group; the others have a possibility of choice. In income statement it is presented in expenses, in balance sheet in liabilities.

Other liabilities - in Slovak balance sheet other liabilities – temporary accounts show also contingencies and estimated items (credit balance), their accurate value can not be identified exactly (e.g. not invoiced deliveries, bank interest expenses not invoiced, etc.).

3. Differences found out from income statement

In Slovakia income statement is prepared by method of total expenses in horizontal form and it is comparable with Hungarian prepared by the same method „A “ version.

There can be pointed out differences in **revenue classification** in two systems of income statement. In Slovak income statement on the side of revenues it is necessary to present separately revenue from realised sale of merchandise and revenue from own production.

Revenues from export activities are not presented separately as in Hungary. Expenses are presented in classification according to the nature of expenses and the function of expenses. For accounting of expenses is used only one class of accounts' classification. **Costs and investments are not defined as different terms.**

The tax duty is determined from the profit or loss from ordinary activities and from extraordinary activities separately. Profit or loss for the accounting period is in the income statement presented after taxation. **The share on profit** can be granted only to external members of public trade companies and limited partners in limited partnerships. In other companies the decision on distribution of profit or recovering of loss will be made in annual general meeting or in members meeting in the following year. On this occasion they decide also about the creation of reserves from profit, amount of share on profit and its disbursement. After disbursements of dividends, the amount of equity cannot decrease under the value of registered capital and statutory reserve account. Advance payments on dividends are not permissible.

4. Differences found out by comparison of notes to the financial statements (annex)

There can be found some differences in Slovak and Hungarian system of preparing of notes to the financial statements. In Slovak system there are no points highlighting disclosure of fundamental errors identified during the control process that influence presentation of assets, resources and profit or loss. There are no points highlighting presentation of revenues from export by geographical location of market and information about protection of environment, all these items are included in Hungarian notes.

5. Differences found out in comparison of cash flow statement

In both countries the cash flow statement is a part of notes to the financial statements. The methods of presentation are illustrated in the following table:

2. table: **Methods of preparation of cash flow statement**

	operating activities	*investing activities*	*financing activities*
Slovakia	1. direct method - clear direct - modified direct 2. indirect method	direct method	direct method
Hungary	indirect method	direct method	direct method

According to the table we can see that **in Slovakia there are three and in Hungary one method of presentation of cash flow from operating activities.** The applied Hungarian method can be compared with permissible indirect method in Slovakia. I have found out the following differences:

In Slovakia the cash flow is determined by changes of **cash and cash equivalents** (difference in value at the beginning and at the end of the year). In all three activities we have to distinguish between alternative items (depending on the kind of activity) and other items, the CF has to be modified by them, in this case only the direct method is appropriate. These items are not presented separately in Hungarian model.

The operating activities include the value of non-monetary donations and subsidies, monetary donations and subsidies are presented financing activities. In Hungary they have still impact on financial cash flow. The social fund created from profit belongs to operating activities. Income from lease, if it belongs to operating activities, as a consequence it has an impact on operating cash flow, in other forms of lease it is presented in the investing activities.

In Slovakia **loans** from related parties are presented in investing activities. Related parties are the following: parent company, subsidiary, joint ventures, relatives, managers of the company, etc. Such a distinguishing criteria cannot be found in Hungarian statement, each loan is presented in financing activities.

6. Differences found out from comparison of annual reports

In Slovakia companies obliged to have financial statements checked by an auditor, prepare annual report that has to be checked by an auditor. The annual report has to be deposited at corporate court. In Hungary **each company preparing annual financial statements and consolidated financial statements** is obliged to prepare annual report. It is not necessary to deposit the annual report at corporate court; it has to be **at every**

interested person's disposal in head office of company, it has to be allowed to do a copy of the whole document or of its part.

5.3 New scientific results

1. Comparison of Accounting Philosophy and Standards, Their Function in Accounting System

The standards are presented in EU directives, International Accounting Standards and in US GAAP. In my work I illustrated in table philosophy and accounting policies of different accounting systems. As a consequence of my comparison I analysed in detail the way of their implementation into the accounting systems of both investigated countries.

I have come to the conclusion that Slovak law on accounting **does not include unequivocal definition of accounting policies**; it indirectly explains the obligation to meet each of policies. Principle of **going concern** and principle **priority of substance over form** is not applied. There is no regulation on keeping the principle of **balance between benefit and cost**. The principle of **relevance** has to be kept only in preparing consolidated financial statements. There are no regulations on keeping the principle of **neutrality** in both countries.

2. Differences found out in comparison of US GAAP, IAS and EU directives

Differences are for better outline illustrated in following table:

3. table: **Comparison of Accounting Systems**

Viewpoint	*US GAAP*	*IAS*	*EU directives*
Attitude	A complex system of policies and principles in the field of accounting.	Their goal is to summarize all possible methods of practical application.	Focused on principles. They provide a framework, but the requirements in certain fields are highlighted in detail.
Validity, application field	Formally it is compulsory only for listed companies.	Applied by listed companies.	They are compulsory for companies operating in member states of EU.
Application method	They are compulsory for listed companies.	Their application is voluntary, it does not require keeping IAS principles.	They are compulsory and are included in national law and in corporate law.

Influencing facts	SEC states its application. It protects the interests of investors and creditors.	Only technical regulations.	It protects the interests of inventors and creditors; they present requirements of tax system.
Information presentation, scope and structure	The form and the items of financial statement are flexible, there are only minimum prescribed requirements.	Their aim is to harmonise accounting statements. They include complete treatments for all accounting problems.	There are minimum requirements on structure, contents, measurement and presentation of financial statements.

The current economic environment is under **immediate changes.** Transformation of environment has an impact not only on economy but also on presentation of accounting information. This fact is proved by the **constantly changing international accounting principles.** It requires a continuous training and development of accounting experts.

3. Factors influencing Accounting Principles in the European Union, Hungary and Slovakia

The approximation to the EU directives has been fulfilled in different ways in these countries. The national authorities have the right to maintain their own system of accounting. In the following table there are illustrated the different accounting systems in EU, Hungary and Slovakia.

4. table: **Factors influencing the accountancy systems in the European Union, Hungary and Slovakia**

European Union	Hungary	Slovakia
Factor: **level of regulation**		
In member states the system is standardised by laws, standards and directives, but there still exist various combinations of them.	The standardisation is due to law. It is enhanced by government directives concerning the financial statements of entrepreneurs.	The standardisation is due to law but it possesses a framework character. Directives, methodology of the Ministry of Finance, enhance this; they govern the accounting process and financial statements. The Commercial Code and government directives determine methods of publishing.
Factor: **taxation**		
In some countries taxation has a great impact on financial statements. The tax payable is calculated according to data introduced in income statement. In other countries the affect is not so significant but nevertheless all companies try to meet the	There is a close connection; it has an affect on detailed analysis of tax payable. In Hungary small-and medium size enterprises to simplify tax declarations they apply certain tax norms in accounting, reduce the number of tax items to avoid	In small companies the affect is very strong, because they develop their financial statements due to tax directives. In other types of companies there is still a strong connection to it, because for statement of modified items of tax

requirements of financial authorities	misunderstanding.	payable a detailed presentation is demanded It is similar to situation in Hungary
Factor: **the role of courts**		
In all member countries the court determines about accounting issues, it provides methodology of law interpretation, it acts as a standardisation body	Methodologies do not prove statutory provisions. The parliament passes resolutions.	Methodologies do not prove statutory provisions. The parliament passes resolutions.
Factors: **boards setting national accounting standards**		
The standardised boards set the principles. Only Austria does not have such a board. Due to their statutory function they can be state, private or combined boards.	Currently there is no board; Hungarian standards do not exist. Creation of standardised board is stated in newly codified accounting law. In the sense of law the National Accounting Board deals with similar tasks like the other ones in member countries.	Currently there is no board. Slovak standards do not exist. The Ministry of Finance created the National Standardised Board in 2000, which operates according to action plan and its role is to approximate national standards to IAS.
Factors*:* **stock exchange**		
Those of IAS accept it. There are changes, in case of foreign companies, companies prepare consolidated financial statements or domestic companies whether they accept it or not. Their application is prohibited only in Spain and Portugal.	IAS principles are compulsory for multinational companies, for those operating abroad and the other ones have a possibility of choice.	Application of IAS principles is allowed, but currently only listed companies apply them. Listed companies should prepare two types of financial statements.
Factors*:* **professional boards**		
They affect the standardisation in two ways: being members of standardisation boards they take part in the process and make proposals.	Hungarian Chamber of Auditors and national Accounting Board have direct affect, they can make proposals to laws.	The Slovak Chamber of Auditors and Slovak Accounting Professionals Association has a direct affect on standardisation; they can make proposals to laws.

In both countries the accounting standards are reconciled with EU principles. It seems to be inevitable to divide accounting and tax principles. The national accounting standards are being processed in both countries. The Hungarian accountancy law is reconciled with EU principles. In Slovakia the complete reconcilement is planned for 2003.

4. Comparison of 4th Directive EU, Accounting Standards in Hungary and Slovakia and Definition of Differences

In my research I analysed the exercise of 4th directive in member countries and I compared the Hungarian and Slovak accounting standards. Due to my analysis there are differences in directive of 16th paragraph. These differences are analysed in detail in my work.

5. Comparison of The International Accounting Standards, Accounting Standards in Hungary and Slovakia and found out differences

Nowadays 34 International Accounting Standards and 25 Interpretations are valid. I have compared them with standards of both countries and I have found 17 differences which are analysed in detail in my work.

5. table: **Differences between IAS and accounting principles in Hungary and Slovakia**

IAS	Hungary	Slovakia
1. Preparation of financial statement:		
To give true and fair view to the owners. (fair presentation)	To give reliable and fair presentation to the creditors	True and fair view/fair presentation.
2. Components of financial statements:		
balance sheet, income statement, statement of changes in equity, cash flow statement and accounting policies and explanatory notes.	balance sheet, income statement, explanatory notes.	balance sheet, income statement, explanatory notes.
3. Preparation of financial statement:		
The balance sheet date is not stated. The structure of statements is recommended. The individual financial statements and the consolidated financial statements have the same structure.	The balance sheet date is 31st December; it can be different in some cases stated by law. Different structure of individual financial statements and consolidated financial statements.	The balance sheet date is 31st December. The prescribed structure is compulsory. Different structure of individual financial statements and consolidated financial statements.
4. Events after the balance sheet date:		
Under the principle going concern. There those events which require adjustment after the balance sheet date.	Under the principle going concern. There those events which require adjustment after the balance sheet date.	There is no regulation for enterprise to keep principle going concern. Events after the balance sheet, which require adjustment after the balance sheet date, are not specified.
5. Interim financial statements:		
Preparing of interim financial statements is not required but it is allowed. Components are the same as in annual financial statements, but they can be simplified.	Preparing of interim financial statements is not required but it is allowed. Preparing of interim financial statements is required in the case of dividend advance payment.	Preparing of interim financial statements is not required but it is allowed. Components are balance sheet and income statement.
6. Definition of basic terms:		
The basic terms are defined.	The basic terms are defined.	The law does not contain definitions. The directive of the Ministry of Finance specifies the components and type of particular items.
7. Methods of valuation:		
Acquisition cost, own costs, realisable value, present value and fair value can be applied.	Acquisition cost, own costs, and realisable value, can be applied.	Acquisition cost, own costs, and realisable value, can be applied.
8. Fundamental errors:		
Fundamental error is error that is of such significance that the financial statements can no longer be considered to have been reliable. Correction: - should be reported by adjusting the opening balance of retained earnings. -should be included in determination of	The standard defines: - significant error - essential error Errors have to be presented in individual third column next to data of previous year.	The law does not contain this term. Due to the directive of the Ministry of Finance the significant errors have to be recognised as extraordinary expenses or extraordinary revenues. Companies determine the amount of significant error.

net profit or loss for current period; additional pro forma information is presented in third column.		
9.Incorporation costs and reorganisation costs:		
Incorporation costs are not capitalized. Reorganisation costs can be capitalised only in the case of, if it is possible to capitalise them in expenses on tangible fixed assets.	Incorporation costs and reorganisation costs are presented in intangible fixed assets.	Incorporation costs are presented in intangible fixed assets. Reorganisation costs are presented in other assets/ accruals.
10. Amortisation of intangible assets		
Amortisation period will usually not exceed 20 years. After amortisation, residual value cannot be recognised. The amortisation method and amortisation period could be changed.	Incorporation costs, reorganisation costs and development expenditures – maximum 5 years Goodwill – 5 years or more Patents, copyrights, trademark and tradenames and intellectual work results – no time limitation. Residual value after amortisation can be recognized. The amortisation method can be changed.	The amortisation period is 5 years or shorter. Residual value after amortisation can be recognized. The amortisation method can be changed.
11. Financial investments:		
They should be measured at acquisition cost or at fair value and then at net realisable value or market value. In cash of permanent impairment it is possible to decrease value. Revaluation difference (adjustment +) is presented in opposite to equity.	In case of permanent impairment it is accounted for adjustment (-) in opposite to expense. Revaluation difference (adjustment +) is presented in opposite to equity.	In acquisition it is measured at purchase price. If the market value decreases, it is accounted for adjustment in opposite to expenses. Adjustment (+) is not presented.
12. Provisions:		
It cannot be created for tangible fixed assets. Creation is accounted for to expenses. Standard does not deal with measurement of provisions. It is accounted as investment. Accounting at present value is allowed as well.	Provisions can be created: - for compulsory and expected liabilities - it is allowed also for future expenses - according to own decision. Can be created also for tangible assets. It is possible to create provisions for expected expenditures.	Due to directive of the Ministry of Finance the creation of reserves can be as follows: - statutory reserves - exchange rate loss reserves - other reserves
13. Exchange differences:		
The non-realised exchange differences are recognised as expense or as income. In financial investments we cannot calculate exchange differences.	Exchange differences arising on financial assets, receivables and payables are accounted for compulsory only in case of their significant effect.	Exchange differences arising on short-term financial assets are recognised as expense or as income. The non-realised exchange differences arising on financial investments, receivables and payables are recognised in other assets as accruals. It is necessary to create reserve on exchange rate loss.
14. Finance lease:		
The lessee should recognise finance lease as asset and as liability in balance sheet. He depreciates the asset and lease payments decrease liabilities. The principle of priority of substance over form is kept.	The lessee should recognise finance lease as asset and as liability in balance sheet. He depreciates the asset and lease payments decrease liabilities. The principle of priority of substance over form is kept.	Lessee does not recognise finance lease as asset, does not depreciate. The principle of priority of form over substance.
15. Deferred tax:		
Each entrepreneur has to present deferred tax.	Deferred tax is presented only in consolidated financial statements.	Deferred tax presents only in companies in a group. Other companies can recognise deferred tax.
16. Expenses and revenues:		
They can be presented due to their type, place of origin and bearer.	They can be presented due to their type, place of origin and bearer.	Classified according to their nature and function.
17. Segment presentation:		
Those companies whose equity or debt securities are publicly traded have to prepare segment reporting.	It has to be presented only in the notes as described in the following text.	It has to be presented only in the notes as described in the following text.

The whole range of differences is not presented here I have focused only on some of them. As I have mentioned earlier the assessment and modification of standards are being processed. In the near future the process will be completed and the national standards will reconciled with those of internationally accepted and as a consequence there is a limited range of differences. The exercise of worldwide valid standards is prescribed in EU and it certainly will have a significant impact on accounting principles of Hungary and Slovakia.

6. THE IMPORTANCE OF RESEARCH RESULTS AND FURTHER TRENDS IN RESEARCH

In my work I tried to point out the accounting principles of Hungary and Slovakia, then I have compared the both systems with three main valid accounting systems in the world. Such kind of research work has been completed neither in Hungary nor in Slovakia, therefore it can be stated that it was a pioneer work in this field.

The partial results of my work have been published in Hungary in the professional magazine Accounting-Tax-Auditing. The experts were interested in my work and they highly esteemed it. It is proved by the fact that this magazine issued articles with similar topic highlighting the accounting system in (e.g. Romania and Germany). I have presented my work also in Slovakia, the results of my research work have been published in professional magazines, I took part in international conferences, and all these items are introduced in 7th chapter of my work.

The results of my research, my knowledge and experience will be utilized in various seminars, lectures. In both countries in Hungary and Slovakia the current process of harmonisation and training of experts is characterized by approximation of the European and national standards. This is the prerequisite to become full-fledged members of the European Union.

I am a senior lecturer at the Technical University of Košice, Faculty of Economics. My specialisation Accounting. I am persuaded that my research work fully supports my activities in teaching process. My research will further provide new ideas and will improve the quality of teaching this subject.

Due to actual development process of international accounting principles there is a requirement on economists and accounting experts to study them, carry out research and apply them in praxis. This work is only the first step in carrying out further research.

7. PUBLICATIONS

PROFESSIONAL MAGAZINES:

1. **Costs and Profits of Leaser**
   Poradca podnikateľa 9/98, Žilina, Slovakia

2. **Entrepreneurs' Duty on Balance Sheet in Slovakia I.**
   Szakma 1/2002, Budapest, Hungary

3. **Entrepreneurs' Duty on Balance Sheet in Slovakia II.**
   Szakma 2/2002, Budapest, Hungary

4. **Harmonisation of International Accounting**
   Research reports from the Universities of Košice 2002/6, Editorial Board „Transactions of the Universities of Košice”

PROJECTS- RESEARCH WORK CARRIED OUT DUE TO ORDER

1. **Interactions of Financial Sources for Building Construction and Risks for the Combine KŤUK Dolinská**
   Co-authors: Technical University of Košice, Faculty of Economics, Department of Finance, 9 members, Slovakia, December 1997.

2. **Leasing- New Method of Financing**
   Co-authors: Technical University of Košice, Faculty of Economics, Department of Finance, 6 members, Košice, Slovakia September 1998

3. **Dealing Securities, Assessment of Bonds Value on Money Market, Securities Trade on Capital Markets in Europe**
   Co-authors: Technical University of Košice, Faculty of Economics, Department of Finance, 5 members, Košice, Slovakia, September 2001

4. **Leasing of Motor Vehicles, Financial Controlling, Capital Markets**
Co-authors: Technical University of Košice, Faculty of Economics, Department of Finance, 6 members, Košice, Slovakia November 2001

STUDENTS´BOOKS:

1. **Accounting I.,** ISBN: 80-7099-603-X (co-author: Ing.Anna Bánociová)
TU –FE for students of economy
Publisher: Olympia, plc Košice, Slovakia, September 2000

2. **Accounting II.** ISBN: 80-7099-635-8 (co-author: Ing.Anna Bánociová)
TU -FE for students of economy
Publisher: Elfa, plc. Košice, Slovakia February2001

CONFERENCES:

1. **Tax Optimalization of the Firm**
International conference, Mogilev, Ukraine, 22-23October 1997

2. **Conditions for Management of Bank Assets and Liabilities in Slovakia**
TU FE Faculty of Economics-International Conference-Herľany1-2 October 1998, Slovakia

3. **The Enterprise in Entrepreneurial Environment**
Co-authors:J.Pidany, O.Jakubová
TU Faculty of Economics-international conference-Herľany
Slovakia, 1-2- October 1998

4. **Profit from Capital Market and it's Charging**
The Institute of Economics –international conference
Rivne, Ukraine, 1999

5. **Application of International Accounting Standards in Conditions of Slovakia**
TU Faculty of Economics-international conference –Herľany
Slovakia, 22-24 September 1999

6. **Harmonisation of Accounting in Countries with Market Economy within the European Union**
   Vyzsa Szkola Zarzadzania Rzeszow, Pland
   International conference, October 1999

7. **Indebtedness of Company and its Impact on Competition Environment**
   Common international conference of the Faculty of Economics TU of Košice and Economic University in Prague, Košice Slovakia 5-7 September 2000

8. **Project on Certification of Profession-Accountant in SR**
   TU, Faculty of Economics, international conference-Herľany, Slovakia, 18-20- October 2000

9. **Development Trends in Harmonisation of Worldwide Accountancy.**
   The Czech University of Agriculture, Faculty of Economics, Prague, Czech Republic
   International conference 11-12- October 2001

10. **Accounting of Environment**
    Economic University, Faculty of International Affairs, Bratislava, Slovakia international conference, 6 May 2002

11. **Current Information from the Field of Harmonisation of Accounting**
    TU, Faculty of Economics, international conference-Herľany
    Slovakia, 5-7- September 2002

12. **Accounting Principles and Accounting Standards in Selected States**
    Economic University, Faculty of Economic Informatics, Bratislava, Slovakia, international scientific conference, 18-20- September 2002.