

Current state of accounting in Slovak Republic in the conditions of globalization

Filip Rebetak^{1,*} and Viera Bartosova¹

¹ University of Zilina, Faculty of Operation and Economics of Transport and Communications, Univerzitna 1, 010 26 Zilina, Slovakia

Abstract

Research background: Globalization currently impacts every aspect of economic life. Accounting and the law that govern it are no exceptions. The interconnectedness of companies across state boundaries brings with itself challenges to the accounting practices around the world. The globalization in the world of accounting is represented with the movement for harmonization of accounting practices around the world. International Financial Reporting Standards (IFRS) are a vehicle for that harmonization. Slovak Republic also allows companies to publish their financial statements in accordance with the IFRS standards. Therefore, it is important to study them and their effect on Slovak accounting law and practice.

Purpose of the article: In this article, we will look at the accounting harmonization that resulted from the globalization of the world economy and the impact it had on accounting in the Slovak Republic. We will also look closer at International Financial Reporting Standards (IFRS) in Slovak Republic – their use, regulations governing them and potential implications for future.

Methods: We use the methods of analysis and synthesis of current literature and law concerning the regulation of accounting in Slovakia with the focus on the impact of globalization on it. We then analysed the current state of use of International Financial Reporting Standards in Slovakia.

Findings & Value added: We found a high level of accounting harmonization with the European Union.

Keywords: *accounting; IFRS; accounting harmonization*

JEL Classification: *M40; M41; M48*

* Corresponding author: filip.rebetak@fpedas.uniza.sk

1 Introduction

Globalization currently impacts every aspect of economic life. Accounting and the law that governs it are no exception. The interconnectedness of companies across state boundaries brings with itself challenges to the accounting practices around the world. The globalization in the world of accounting is represented with the movement for harmonization of accounting practices around the world. International Financial Reporting Standards (IFRS) are a vehicle for that harmonization. Slovak Republic also allows companies to publish their financial statements in accordance with the IFRS standards. Therefore, it is important to study them and their effect on Slovak accounting law and practice.

International Financial Reporting Standards (IFRSs) are a tool for global harmonization, or approximation, of the various accounting systems of the various countries. The standards are a response to current globalization trends in the world, which have also penetrated accounting. With increasing international trade and cooperation, there has been a demand for better comparability of accounting information over time and space. This aims to standardize and harmonize financial statements and accounting procedures. By accounting harmonization, we mean the process of approximating the accounting principles, rules and especially the financial statements of individual countries so that they are comparable and understandable for all users of information from any country in the world. The aim of the harmonization process is to create an international accounting system based on the convergence of national accounting systems; this process mainly concerns financial statements, not current accounting. (Kocner, 2013)

Some companies prepared financial statements in accordance with IAS (which later became IFRS) voluntarily as early as the 1990s, but the largest expansion of standards occurred after the mandatory transition to IFRS in the European Union from 1.1. 2005. (Prochazka, 2015).

IFRS are currently internationally accepted and extended, supported by organizations such as the World Bank, the G20, the Financial Stability Board (FSB), the Basel Committee on Banking Supervision or the European Securities and Markets Authority (ESMA). (IFRS - Why global standards?, 2021)

IFRS represents worldwide effort to increase financial statement transparency, clarity, usability, and reliability and are currently used for publicly traded companies in almost 75% of the countries worldwide. (Savova, 2021) The economic results of a company are often the only source of information that informs the company's partners about the managerial activities of their company, it is necessary to present these economic results using real numbers. (Blazek et al., 2020) The quality of accounting information is important for the managers (Liem and Hien, 2020) and for the performance of the company. (Al-Delawi et al., 2020) This quality is determined by proper regulation by a set of principles and rules which help build trust with investors. (Irwandi and Pamungkas, 2020; Nedeliakova et al., 2014) A lacking or weak regulation of accounting can lead to low quality financial statements, fraudulent financial reporting and earnings management. (Svabova et al., 2020) (Vagner et al., 2021) There is therefore need for companies to improve their internal systems. (Vagner, 2016) Corporate governance also plays a role in ensuring the functioning of companies in accordance with formulated objectives to ensure their good performance. (Grofcikova, 2020) Others doing research are for example Robinson (2020).

2 Methods

We use the methods of analysis and synthesis of current literature and law concerning the regulation of accounting in Slovakia with the focus on the impact of globalization on it. We then analysed the current state of use of International Financial Reporting Standards in

Slovakia. We compiled available information from open sources and demanded information about the use of IFRS from the Ministry of finance of Slovak Republic.

3 Result and Discussions

In this chapter, we will investigate the current regulation of accounting in Slovakia, and we will discuss the impact of globalization had and still has on it.

3.1 Accounting regulation in Slovakia

The basis of the legal regulation of accounting in the Slovak Republic is Act No. 431/2002 Coll. on Accounting, as amended, which represents the highest legal norm governing the method of bookkeeping, preparation of financial statements and the register of financial statements. (Act No. 431/2002 Coll., §1 para. 1).

Another legal regulation of accounting is constituted by the measures of the Ministry of Finance of the Slovak Republic. They regulate the accounting of various types of entities, such as the mandatory form of chart of accounts and accounting policies. At the same time, the legal framework for accounting is supplemented by other laws that need to be considered for accounting to be kept correctly. They are e.g., the Income Tax Act, the Value Added Tax Act, or other tax laws, the Trade Licensing Act, the Civil Code, the Customs Act, the Labor Code, social and health insurance laws and others. (Bartosova and Paliderova, 2018)

In connection with membership in the European Union, the legal regulation of the accounting of the Slovak Republic is also influenced by the regulation of accounting at the EU level. The EU has adopted rules to ensure the convergence of accounting standards across the EU to ensure consistent and comparable financial reporting in all Member States. Publicly traded companies or those whose securities are traded on regulated markets must prepare statements in accordance with International Financial Reporting Standards (IFRS). At the same time, the EU has allowed states to extend mandatory reporting under IFRS to other companies. This was enshrined in Regulation (EC) No 1/2003 of the European Parliament and of the Council. 1606/2002 of 19 July 2002 on the application of International Accounting Standards. Upon accession to the EU in 2004, this regulation also affected Slovakia, and therefore from the beginning of 2005 all consolidated financial statements began to be prepared in accordance with IFRS standards (§22 of the Accounting Act) and since 2006 this obligation also applies to individual financial statements of certain entities, as defined in §17a of the Accounting Act.

For other companies, those that are not required to report in accordance with International Financial Reporting Standards (IFRS), the obligation to prepare financial statements also applies. The EU has also decided to issue common basic rules on financial statements for these entities. These rules are defined in Directive 2013/34 / EU of the European Parliament and of the Council on the annual accounts, consolidated accounts, and related reports of certain types of companies. As this is a directive, it was up to the individual states to adjust their laws and regulations to comply with the directive by 20 July 2015. Slovakia introduced this directive into our legislation in particular by amending Act no. 431/2002 Coll. on accounting and changes in measures of the Ministry of Finance of the Slovak Republic. (Eurlex, Document 32013L0034). This Directive was aimed at small and medium-sized enterprises to strike a balance between the need for transparent financial statements and the associated administrative costs compared to the benefits of transparency. Its aim was to harmonize national regulations concerning the presentation and content of financial statements, annual reports, valuation methods, audit rules, disclosure of financial statements and management responsibilities. It has also introduced simplification of reporting for small businesses - it defines the individual size categories of businesses, the boundaries between them and the basic rules for their reporting. (Financial Reporting - European Commission)

3.2 IFRS in Slovakia

The process of convergence of accounting in the Slovak Republic to IFRS, including financial reporting, is a relatively lengthy process. In 2002, Regulation (EC) No. 1606/2002 of the European Parliament and of the Council on the application of International Accounting Standards, which adopted International Accounting Standards - IAS and International Financial Reporting Standards - IFRS into European law, was approved. At the same time, this Regulation sets out the objective of implementing IFRS - harmonization of financial information provided by companies "to ensure a high degree of transparency and comparability of financial statements and thus the efficient functioning of the Community capital market and internal market" (EP and Council Regulation No 1606/2002)

At present, IFRS standards apply in Slovakia, as approved by the European Union in Commission Regulation (EC) No. 1126/2008, which enacts IFRS adopted by the European Union and which are directly applicable in all EU countries.

Since 1 May 2004, the Slovak Republic, as a Member State of the European Union, has been obliged to ensure the convergence of Slovak accounting legislation to the requirements of the European Union, and thus indirectly to IFRS. The whole process has so far been ensured by legislative amendments to the Accounting Act.

Pursuant to individual amendments, the application of International Financial Reporting Standards is mandatory for consolidated financial statements from 1 January 2005 and for individual financial statements of selected companies prepared as of 1 January 2006.

The current number of companies that have published individual financial statements prepared in accordance with international IFRS standards for 2019 (note: the last year available at the time of writing the article) is 198 according to the answer the Director of the Office of the Minister of Finance of the Slovak Republic, upon request for access to information. An overview of the number of financial statements prepared in accordance with International Standards stored in the Register of Financial Statements is provided in Table 1 below.

Table 1. Number of companies reporting their financial statements according to IFRS each year for the period of last 7 available years (2013-2019)

Year	2013	2014	2015	2016	2017	2018	2019
Number	187	188	189	195	199	203	198

Source: made by authors according to the data from Ministry of Finance of SR (2021)

From these data we can see a relatively stable development of the number of companies reporting their individual financial statements according to international IFRS standards with a slightly increasing tendency (with the exception of 2019). During these 7 years, the Ministry of Finance of the Slovak Republic also registers 240 unique accounting units, which for one of the years submitted individual financial statements prepared in accordance with international IFRS standards, so it is clear that the number of companies fluctuates. We identified 23 non-financial corporations that switched to IFRS reporting during the period. (MF SR, 2021)

For comparison, in the 4th quarter of 2019 The Statistical Office of the Slovak Republic registered 247,022 enterprises. (Statistical Office, 2021) 198 enterprises reporting according to IFRS therefore represent only a small fraction - 0.08% - of the total number of enterprises in Slovakia.

In order to obtain an overall picture of the use of IFRS in Slovakia, it is necessary to add to this number the companies preparing consolidated financial statements and also companies which prepare documents for consolidated financial statements of their parent companies.

According to KPMG's estimates, in 2018 there were several hundred companies compiling KÚZ and another several hundred companies preparing documents for KÚZ of the parent companies. (KPMG, 2018)

We can thus see that companies that do their accounting according to IFRS account only for a fraction of Slovak companies. However, the impact of IFRS on Slovak accounting practice is disproportionate because of the pressure from the EU towards accounting harmonisation across the bloc to increase the ease of doing business across national borders inside EU and with third countries. Clear, understandable, and robust accounting practices and resulting financial statements help investors, creditors, and other stakeholders to make better informed decisions. Globalization has been the driving force of accounting harmonization around the world and we can see its impact also on Slovak accounting practices with the introduction of IFRS and EU directives.

4 Conclusion

We found a high level of accounting harmonization of accounting in Slovak Republic with the European Union. However, only a limited number of companies in Slovakia uses IFRS for their financial reporting.

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