

Subject: New Accounting Act – comparison of the most significant provisions

Dear business partner

As you know, the new Accounting Act No. 431/2002 Coll. came into force on 1 January 2003.

Enclosed you can find our summary of the main changes and comparisons with the previous legal regulation („the old“ Accounting Act No. 563/1991 Coll. valid till 31 December 2002) and the International Accounting Standards (IAS). In addition, this information is presented in a structure characteristic for IAS, enabling a quick and clearly laid-out comparison. We have chosen this kind of presentation due to the harmonisation of the Slovak legislature with the European one and because of the new possibility to show the results of operations also according to IAS as of 2004.

Major changes introduced by the Accounting Act No. 431/2002 with effect from 1 January 2003 are as follows:

- True and fair override principle similar to IAS was introduced;
- From 1 January 2004, companies may ask the local tax authorities approve the use of accounting periods other than the calendar year. Financial statements will have to be prepared within six months of the balance sheet date;
- Going concern assumption was clarified to mean continuance in operation for at least 12 months of the balance sheet date;
- Materiality concept for information in the financial statements was introduced;
- Assets, liabilities, revenues and costs or expenses are defined similarly to IAS;
- Provisions for liabilities and charges are defined as liabilities of uncertain timing or amount. Certain items previously recognized as provisions, such as repairs and maintenance provisions, will have to be released because they no longer meet the definition of a provision and a liability;

- Adjusting and non-adjusting post balance sheet events are distinguished. Information reported in the financial statements must reflect conditions that existed at the balance sheet date;
- Consolidated financial statements will no longer have to be prepared by Companies not meeting certain size based financial criteria;
- Finance leases will continue to be accounted for similarly to current treatment, for 2003 at least, – lease instalments are expensed as incurred on a time proportion basis;
- Similarly to current treatment the useful life of intangible assets may not exceed five years;
- Transaction costs will have to be included in initial historic acquisition cost of investments;
- Financial Investments other than held to maturity, originated by the enterprise (not held for trading) and share in base capital of other companies will be fair valued;
- Derivative instruments will be fair valued;
- Financial placement and technical reserves of insurance and reinsurance companies will be fair valued;
- Hedge accounting was introduced: Assets and liabilities designated as items hedged by derivatives will have to be fair valued;
- Fines and penalties were significantly increased up to 3% of total assets.

We believe that the presented material will help you make yourself familiar with the new legal regulation. It has been prepared for information purposes only, before taking any action, readers should seek professional advice specific to their circumstances. No liability is accepted for acts or omissions taken in reliance upon the contents of this alert. Should you be interested in a professional consultation, please contact me or Mr Juraj Tučný on the phone number +421 (0) 2 5441 41 01 or by e-mail: maria.fruhwaldova@sk.pwcglobal.com, juraj.tucny@sk.pwcglobal.com.

Yours sincerely



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The left-hand column of this document briefly summarizes the key concepts of Accounting Act No. 431/2002 (“the Act” or “the New Act”) effective from 1 January 2003. The middle column lists and compares these same key concepts under Accounting Act No. 563/1991 (“the Old Act”) valid until 31 December 2002. The right-hand column compares the New Act’s compliance with IAS (or IFRS, if applicable).

The New Act	The Old Act	International Accounting Standards/IFRS
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Introduction

Accounting entity: Under § 1, accounting entities are legal persons with a seat in the Slovak Republic, foreign entities performing entrepreneurial or other activities, such as foundations, and physical persons - entrepreneurs (§ 1).

The accounting period is the calendar year. From 1 January 2004, companies may ask the local tax authorities approve the use of accounting periods other than the calendar year (§ 3).

Financial statements consist of a *balance sheet*, an *income statement* and *notes* (*poznámky*). Notes include accounting policies, an analysis of the balance sheet and income statement and non-adjusting post-balance-sheet events (§ 18). Financial statements must be prepared no later than six months after the balance sheet date (§ 17). A comparative balance sheet and income statement for at least one prior period is compulsory. The New Act does not specify compulsory comparative information for the notes (§ 18).

Financial statements may be prepared as:

ordinary (annual) financial statements; or
 extraordinary financial statements; or
 interim financial statements, if specified in other laws, such as banking law. (§ 6)

Measurement currency: Accounting entities are required to keep books and prepare financial statements in Slovak currency, SKK. (§ 4)

Accounting entity: The New Act broadened the definition. Under § 1 of the Old Act, accounting entities were legal persons, foreign entities and physical persons – entrepreneurs who claimed tax-allowable expenses incurred to achieve, secure and maintain income.

The accounting period was the calendar year. There was no option to apply for approval of fiscal years other than the calendar year.

Financial statements consisted of a *balance sheet*, an *income statement* and *notes* (*priloha*). Notes had to include measurement methods, depreciation methods, accounting policies used in the period and information important for determining the state of the entity’s assets, liabilities, financial situation, and results of operations (§ 18). The date the entity filed its income tax return determined the deadline for preparing financial statements. Comparative information in the notes was not compulsory.

Financial statements were prepared as:

ordinary (annual) financial statements; or
 extraordinary financial statements; (§ 19) or
 informative financial statements. (§ 6)

Measurement currency: Accounting entities were required to keep books in Slovak currency, SKK (§ 4). Real estate located in foreign countries will no longer need to be booked in foreign currency under the New Act.

Accounting entity: IFRSs are designed to apply to the general purpose financial statements and other financial reporting of all profit-oriented entities. Although IFRSs are not designed to apply to not-for-profit activities in the private sector, public sector or government, entities with such activities may find them appropriate.

The accounting period under IFRS is the fiscal period ending on a date selected by the enterprise.

Financial statements consist of (a) a *balance sheet*, (b) an *income statement*, (c) a statement showing either all *changes in equity* or changes in equity other than those arising from capital transactions with owners and distributions to owners, (d) a *cash flow statement*, and (e) *accounting policies and explanatory notes*. Comparative information regarding the previous period should be disclosed for all numerical information in the financial statements. Comparative information should be included in narrative and descriptive information when it is relevant to understanding the current period's financial statements (IAS 1p38). IAS 34 specified the minimum content of an *interim financial report*.

Measurement currency: Under SIC 19, if a particular currency is used to a significant extent in, or has a significant impact on, the enterprise, that currency may be an appropriate currency to use as the measurement currency.

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Underlying assumptions

Accruals assumption: The accounting entity records and reports transactions in the period to which they belong in terms of time and fact. If this rule cannot be met, the entity should record and report transactions in the period in which the matters were identified. Revenue and costs are recorded when incurred, regardless of settlement date. Receipts and outlays are recorded when received or spent (§ 3).

Going concern assumption: Accounting policies and methods must be applied under the going concern assumption if there are no matters that would limit the entity's ability to continue operating for at least 12 months of the balance sheet date. Otherwise, an entity must use an appropriate accounting policy and disclose it in the notes (§ 7).

Qualitative characteristics of financial reporting

True and fair view: Accounting entities are required to account for transactions so that the financial statements give a true and fair view of the entity's underlying substance and financial situation. Financial reporting is true if the content of the financial statements corresponds to reality and is in accordance with established accounting policies and methods. Financial reporting is fair if the applied accounting policies and methods lead to a fair presentation of the underlying substance in the financial statements (§ 7).

True and fair override: If the accounting entity determined that the accounting policies and method currently applied are not consistent with the true and fair presentation requirement, the financial statements must be restated to show a true and fair view. Notes must include information on the restatement (§ 7).

Accruals assumption: Under the New Act, the accruals concept was extended from 'accounting' to 'recording and reporting transactions'. The accrual concept previously required the accounting entity to account for matters for the period to which they belonged in terms of time and fact. If it was impossible to meet this requirement, entities were allowed to record transactions in the period in which the matters were identified (§ 3).

Going concern assumption: A fair valuation of assets and liabilities if a company was winding up was not required under the Old Act. The New Act allows entities to choose the accounting policies in liquidation by stating that an entity must use an appropriate accounting policy, without actually defining it (§ 7).

True and fair view: Accounting entities had to maintain complete and correct accounting records supported by evidence to show a fair view of accounting matters (§ 7). Financial statements had to be understandable, supported by evidence and had to give a true and fair view of the accounting entity's assets, liabilities, operational results and financial situation. (§ 18). This true and fair view was changed from completeness, correctness and support by evidence to fairly present the underlying substance and financial situation in accordance with allowed accounting policies and methods.

True and fair override was not previously allowed and is a new concept. Nevertheless, it can lead to controversial results due to subjectivity.

Accruals assumption under IFRS requires transactions and events to be recognized when they occur (and not when cash or its equivalent is received or paid). Transactions are recorded in the accounting records and reported in the financial statements of the periods to which they relate. Expenses are recognized in the income statement on the basis of a direct association between the costs incurred and the earning of specific items of income (matching) (IAS 1p26).

Going concern assumption: Financial statements should be prepared on a going concern basis unless management either intends to liquidate the enterprise or to cease trading, or has no realistic alternative but to do so. If the enterprise is not considered to be a going concern, the basis on which the financial statements are prepared must be disclosed (IAS 1p23).

True and fair view: Financial statements should present fairly the entity's financial position, financial performance and cash flow. The appropriate application of IAS, with additional disclosure when necessary, results, in virtually all circumstances, in financial statements that achieve fair presentation (IAS 1p10). Financial statements should not be described as complying with IAS unless they comply with all the requirements of each applicable standard and each applicable interpretation of the Standing Interpretations Committee (IAS 1p11).

True and fair override is allowed in the extremely rare circumstance when management concludes that compliance with a requirement in a standard would be misleading, and that departure from a requirement is necessary to achieve a fair presentation. The departure, its nature and reasons why IAS would be misleading, must be disclosed. Stáleho interpretačného výboru. (IAS 1ods.11)

The New Act

Materiality: Information in the financial statements must be useful to their user, is judged based on materiality, and must be understandable, comparable and reliable. Information is material if its omission or an incorrect inclusion in the financial statements could have an impact on the judgement or decisions of the person using the financial statements. Information may not be omitted just because the user would not understand it (§ 17).

Comparability: Accounting policies and methods may be changed effective from the beginning of the next accounting period only if the current policies and methods do not lead to a true and fair view or if the entity changed its business. The effect of changes in accounting policies and methods is recorded in the period the change is made – there is no restatement of prior periods (§ 7).

Prudence: The accounting entity recognizes asset- or liability-related, expected risks and losses that existed at the balance sheet date and are known the date the financial statements were prepared (§ 25). Expected risks, losses and impairment related to assets and liabilities are recognized through provisions for liabilities and charges, impairment provisions and depreciation. Non-profit entities create provisions and impairment provisions based on other laws, such as the Law 368/1999 on Tax-allowable Provisions (§ 26).

The Old Act

Materiality is a new concept that was not defined in the Old Act. Previously, all transactions and information had to be included in the financial statements, regardless of materiality.

Comparability: The comparability requirement in the Old Act is similar. Under § 8 of the Old Act, measurement methods, depreciation methods, accounting policies, the classification of financial statement items, the definition of their substance and consolidation methods used in the financial statements might only be changed effective from the beginning of the following accounting period. The purpose of the change was to achieve a true view of accounting matters. The reasons for the change and its impact had to be disclosed in the notes. Prior periods were not restated (§ 8).

Prudence: When valuing assets and liabilities and determining results of operations, the entity had to consider a) all costs and revenues related to the accounting period regardless of their payment date, and b) risks, losses and impairment related to assets and liabilities that were known the date the financial statements were prepared (§ 24). The valuation of assets and liabilities in the financial statements was adjusted for risks, losses and impairment in accordance with § 24; when the reasons for such adjustments no longer applied, the adjustments were released (§ 26). The Old Act did not appropriately distinguish between adjusting and non-adjusting events related to recognizing provisions and reserves. This is no longer the case with the New Act.

International Accounting Standards/IFRS

Materiality: Information is material if its omission or misstatement could influence the economic decisions users take on the basis of the financial statements. Each material item should be presented separately in the financial statements. Immaterial amounts should be grouped with amounts of a similar nature or function and need not be presented separately (IAS 1p29).

Comparability: The presentation and classification of items in the financial statements should be retained from one period to the next, unless: (a) a significant change in the nature of the enterprise's operations or a review of its financial statement demonstrates that the change will result in a more appropriate presentation of events or transactions; or (b) a change in presentation is required by IAS or an interpretation of the SIC (IAS 1p27).

Prudence: Uncertainties in preparing financial statements are recognized by the disclosure of their nature and extent and by exercising *prudence* in preparing them. Prudence is the inclusion of a degree of caution when making the estimates required under uncertain conditions so that assets or income are not overstated and liabilities or expenses are not understated. However, prudence does not allow, for example, creating hidden reserves or excessive provisions, deliberately understating assets or income, or deliberately overstating liabilities or expenses. This is because the financial statements would not be *neutral* or reliable.

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The elements of financial statements

Assets (**‘majetok’**) are defined as part of the total belongings and off-balance-sheet rights (in Slovak **‘aktíva’**) of an accounting entity that arose from past events, can be valued under §§ 24 to 28, and are recognizable in the balance sheet (§ 2).

Liability is an accounting entity’s obligation arising from past events that the accounting entity expects to settle by giving up resources embodying economic benefits, can be valued under §§ 24 to 28 and are recognizable in the balance sheet (§ 2).

Income is defined as an increase in accounting entity’s resources embodying economic benefits.

Economic benefits are defined as the ability to increase, directly or indirectly, cash inflows to the accounting entity (§ 2).

Expenses are defined as decreases in resources embodying economic benefits of the accounting entity (§ 2).

Receipts (**‘prijmy’**) are defined as inflows of cash or cash equivalents (§ 2).

Outlays (**‘výdavky’**) are defined as outflows of cash and cash equivalents (§ 2).

Off-balance-sheet rights/assets (**‘iné aktíva’**) are part of total belongings and off-balance-sheet rights (in Slovak **‘aktíva’**) of the accounting entity that do not qualify for recording in the general ledger and are supposed to be disclosed in the notes to the financial statements (§ 2).

Basic accounting terms such as assets, liabilities, revenue or costs **were not defined in the Old Act**. Such terms were used in accordance with their intuitive meaning or using guidance in the Decree of the Ministry of Finance SR on the chart of accounts and accounting policies for entrepreneurs (the “Decree”)

Nevertheless, this Decree also did not have a comprehensive approach to defining basic elements of financial statements. The Decree defined selected terms, such as *tangible and intangible fixed assets, financial assets, financial investments, capital funds, and funds from profit*.

For example, **tangible fixed assets** were defined as: a) land, buildings and construction works, pieces of art, collections and items from precious metals if not classified as financial investments, and b) separate movable items or sets of items with a separate technical and economic purpose that have a value exceeding the limit in the Income Tax Act and a useful life of more than one year. Low-value items may also be classified as tangible fixed assets.

Financial assets were described by listing items falling into this category, including shares, bonds, cash, deposits, certificates of deposit, investments in investment funds, derivatives, insurance contracts, loans, pieces of art, collections, items from precious metals, and land purchased with the intent to deposit free funds and sets of movable and immovable assets leased as one unit in accordance with the Income Tax Act.

The link between tax laws and accounting was directly shown through references to tax legislation.

Assets under IFRS are defined as resources controlled by the enterprise as a result of past events and from which future economic benefits are expected to flow to the enterprise.

Liabilities under IFRS are present obligations of the enterprise arising from past events, the settlement of which is expected to result in an outflow from the enterprise of resources embodying economic benefits.

Income is defined as increases in economic benefits during the accounting period in the form of inflows or enhancements of assets or decreases of liabilities that result in increases in equity, other than those relating to contributions from equity participants.

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or the incurring of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

An item that meets the definition of an element of the financial statements should be recognized if:

- (a) it is probable that any future economic benefit associated with the item will flow to or from the enterprise; and
- (b) the item has a cost or value that can be reliably measured (Framework p. 83).

Items not meeting these requirements are considered off-balance-sheet assets or liabilities under IAS.

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<p>Off-balance-sheet liabilities (‘iné pasíva’) are obligations of the accounting entity that do not qualify for recording in the general ledger and are supposed to be disclosed in the notes to the financial statements (§ 2).</p>	<p>Off-balance-sheet assets and liabilities were not specifically defined or covered in the Old Act.</p>	<p>Off-balance-sheet liabilities under IAS primarily include contingent liabilities that are (a) possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the enterprise’s control; or (b) present obligations that arise from past events but are not recognized because: (i) it is not likely that an outflow of resources embodying economic benefits will be necessary to settle the obligation; or (ii) the amount of the obligation cannot be reliably measured (IAS 37p10).</p>
<p>Provisions (‘rezervy’) are defined (§ 26) as liabilities of uncertain timing or amount.</p>	<p>Provisions (‘rezervy’) were not defined in the Old Act. Certain items previously recognized as provisions, such as repairs and maintenance provisions, will have to be released because they no longer meet the definition of a provision and a liability.</p>	<p>Provisions are liabilities of uncertain timing or amount (IAS 37p10).</p>
<p>Impairment provisions (‘opravné položky’) reflect a temporary diminution in the value of assets and are reversed when the risks covered by these provisions no longer apply (§ 26).</p>	<p>Impairment provisions (‘opravné položky’): Under § 26 of the Old Act, the valuation of assets and liabilities in the financial statements was adjusted for risks, losses and impairment. When the reasons for such adjustments no longer applied, the adjustments were released. Even though the wording differs in the New Act, no major implications will arise.</p>	<p>Impairment: Under IAS, assets are considered impaired if their carrying amounts are greater than their estimated recoverable amounts. Detailed rules exist for determining impairment provisions for financial and non-monetary assets.</p>
<p>Depreciation reflects a permanent diminution in the value of assets (§ 26). It reflects the physical wear and tear that would be expected under normal operating conditions (§ 28). The useful life of intangible assets may not exceed five years (§ 28). Land, precious metals and other assets, if specified in other laws, are not depreciated.</p>	<p>Depreciation: Tangible assets, excluding inventory, were depreciated for the physical wear and tear expected under normal operating conditions. Intangible assets, excluding receivables, had to be amortized within five years of their acquisition (§ 28). The ‘permanent diminution in value’ and ‘physical wear and tear’ concepts in the New Act may be in conflict under certain circumstances.</p>	<p>Depreciation is the systematic allocation of the depreciable amount (being the cost or other amount substituted for cost, less residual value) of an asset over its useful life (IAS 16p6). The depreciation method used should reflect the pattern in which the asset’s economic benefits are consumed by the enterprise (IAS 16p41).</p>
<p>Offsetting: Assets and liabilities, revenue and costs, receipts and expenditures are recorded and reported separately and should not be offset unless the accounting procedures applicable to entities established under specified selected laws, such as the Insurance Act or the Banking Act, allow this (§ 7).</p>	<p>Offsetting: Assets and liabilities, revenue and costs, receipts and expenditures could be offset only if allowed by accounting procedures (§ 8). Offsetting was allowed only for receivables and payables to the same entity due within one year and which were denominated in the same currencies; further for credit notes, income tax and indirect tax, fee charges and tax refunds.</p>	<p>Offsetting: Assets and liabilities, items of income and expenses should not be offset except when offsetting is required or permitted by another International Accounting Standard or the impact is not material. (IAS 1p33)</p>

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Events after the balance sheet date.

Information reported in the financial statements must reflect conditions that existed at the balance sheet date (§ 17). Accounting books may not be reopened after the financial statements were prepared, except before the financial statements are approved and it is necessary to ensure a true and fair view (§ 16).

Post-balance-sheet events were not previously classified into adjusting and non-adjusting. This often caused diversity in financial reporting. In fact, impairment was recognized if known at the date the financial statements were prepared, even if the reason was a non-adjusting, post-balance-sheet event.

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the balance sheet date and the date when the financial statements are authorized for issue. Two types of events can be identified: (a) those that provide evidence of conditions that existed at the balance sheet date (adjusting events after the balance sheet date); and (b) those that indicate conditions that arose after the balance sheet date (non-adjusting events after the balance sheet date).

Correction of errors

If the comparative information is found to be inconsistent or incomparable after the financial statements were approved, the entity will correct it in the accounting period in which the inconsistency was identified (§ 16). The closing balances of the previous period must equal the opening balances of the current period (§ 16).

As with the Old Act, accounting books will not be reopened to correct errors. Previously, accounting entities had to account for matters in the period to which they belonged in time and fact. If this rule could not be met, entities were allowed to record transactions in the period in which the matters were identified (§ 3).

Benchmark treatment requires the entity to report a correction of a **fundamental error** by adjusting the opening balance of retained earnings. Comparative information should be restated. Alternatively, the amount of the correction may be included in the net profit or loss for the current period (IAS 8p34, 38).

Finance leases, REPOs and similar transactions

Assets subject to a free-of-charge borrowing contract (Sec. 659 Civil Code), assets subject to the transfer of rights as collateral (Sec. 553 Civil Code) and movable assets where ownership is transferred other than by physical handover (Sec. 133 Civil Code) are depreciated by the accounting entity using them (§ 28).

Finance leases, REPOs and similar transactions were previously accounted based on their legal form. Initial payment on the finance lease was released to income over the duration of the lease. Regular finance lease installments were charged to income when incurred. No tangible depreciable asset or finance lease liability was recognized in the financial statements.

Under IAS, finance leases are recognized as equal amounts of assets and liabilities in balance sheets at the beginning of the lease up to the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Assets transferred under REPO arrangements are normally not derecognized by transferors based on the provisions of IAS 39.

Physical verification of assets

Cash must be counted at least four times during the accounting period. Physical verification of assets may be performed during the last three months of an accounting period or one month after the end of the period. An entity must prepare roll-forward information until the end of the period if the physical verification was not done at the end of the period. Ongoing physical inventory verification is allowed (§ 29 - 30).

Due to certain provisions of the Old Act, it was practically impossible or extremely difficult to apply ongoing physical inventory verification. No other major changes were introduced - cash had to be counted at least four times a year. Physical verification of assets had to be performed during the last three months of an accounting period or one month after the end of the period. An entity had to prepare roll-forward information until the end of the period if the physical verification was not at the end of the period (§ 29 - 30).

IAS does not include specific requirements for physical verification of assets, other than a general requirement for information to be reliable. Information is reliable when it is free from material error and bias and can be depended upon by users to represent faithfully what it either purports to represent or could reasonably be expected to represent (Framework p. 31).

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Consolidated financial statements

Consolidated financial statements must be prepared by entities that control or have significant influence in other entities. Significant influence is defined as at least a 20% share of base capital. Consolidated financial statements do not need to be prepared if the information in the last separate financial statements of the entities to be consolidated fulfilled at least two of the following conditions:

- total assets of the consolidated unit are less than Sk 350,000,000.-; total assets are assets *before provisions and accumulated depreciation and amortization*;
- the net turnover of the consolidated unit did not exceed Sk 700,000,000.-; net turnover means sales of the entity's own products, goods and merchandise and services rendered;
- the average number of employees of the consolidated unit for the accounting period did not exceed 250 (§ 22).

Banks, insurance and re-insurance companies must prepare consolidated financial statements regardless of these conditions (§ 22).

The entity preparing consolidated financial statements must ensure that entities whose separate financial statements are consolidated used the same measurement methods for assets and liabilities and the same method of foreign exchange conversion into Slovak currency. Financial statements of consolidated entities must not be prepared more than three months before or after the balance sheet date of the consolidated statements (§ 23).

The New Act does not specify consolidation methods and standards. This will probably be subject to a separate Decree of MF SR.

Previously, consolidated financial statements had to be prepared by companies that had at least a 20% stake in another company or which had a right to manage another company based on a statute or contract, regardless of whether such a statement in statute or contract was valid or not (§ 22).

There were previously no financial limits for preparing mandatory consolidated financial statements.

Consolidated financial statements were subject to mandatory audit (§ 23).

The same measurement methods for assets and liabilities and the same foreign exchange rates for converting foreign currency into Slovak currency had to be used in the financial statements of consolidated companies (§ 23) under the Old Act. Based on the Decree, financial statements of consolidated entities could not be prepared more than three months before or after the balance sheet date of the consolidated statements.

An enterprise that has one or more subsidiaries should present consolidated financial statements unless it is a wholly owned subsidiary, or is virtually wholly owned and for one that is virtually wholly owned, the enterprise obtains the approval of the owners of the minority interest. The enterprise should disclose the reasons its consolidated financial statements have not been presented, together with how subsidiaries are accounted for, in its separate financial statements (IAS 27p7 & 8).

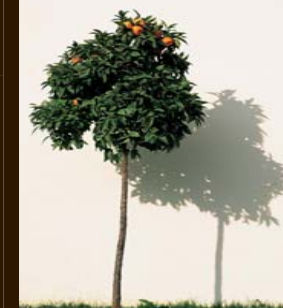
An investment in an associate should be accounted for in consolidated financial statements under the equity method, except when (a) the investment is acquired and held exclusively with the aim of disposing of it in the near future; or (b) it operates under severe long-term restrictions that significantly impair its ability to transfer funds to an investor (IAS 28p8).

An associate is an enterprise in which the investor has significant influence and which is neither a subsidiary nor a joint venture of the investor. Significant influence is the power to participate in the associate's financial and operating policy decisions, but is not control over those policies (IAS 28p3).

Consolidated financial statements should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to use uniform accounting policies to do so, that fact should be disclosed, together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied (IAS 27p21).

The New Accounting Act No. 431/2002 specifies the following measurement methods to be used for assets and liabilities:

Item		Initial measurement	Subsequent measurement
<i>Tangible assets</i>	Purchased or otherwise acquired	Historic cost, including transaction costs	Not specified
	Made by the enterprise	Direct and indirect costs to make	<i>Not specified</i>
<i>Intangible assets</i>	Purchased or otherwise acquired	Historic cost, including transaction costs	<i>Not specified</i>
	Made by the enterprise	Lower of current replacement cost and direct and indirect costs to make	<i>Not specified</i>
<i>Inventory</i>	Purchased or otherwise acquired	Lower of Net Realizable Value and Historic cost (including transaction costs). Disposals are valued using FIFO or Weighted Average method	<i>Not specified</i>
	Produced by the enterprise and biological assets	Direct production and a portion of indirect production costs	<i>Not specified</i>
<i>Receivables</i>	Purchased or acquired through capital increases	Historic cost, including transaction costs	<i>Not specified</i>
	Originated by the enterprise	Nominal values	<i>Not specified</i>
Cash and vouchers		Nominal values	<i>Not specified</i>
<i>Liabilities</i>	Originated by the enterprise	Nominal values	<i>Not specified</i>
<i>Securities</i>	Issued by the enterprise	Historic cost, including transaction costs	Historic cost, including transaction costs, increased for accrued interest expense.
	Held to maturity, acquired in primary markets and not held for trading	Historic cost, including transaction costs	Historic cost, including transaction costs, increased for interest income
	Share in base capital of other companies	Historic cost, including transaction costs	Historic cost, including transaction costs or equity method
	All others	Historic cost, including transaction costs	Market value or fair value
Derivatives		Historic cost, including transaction costs	Market value or fair value
<i>Financial placement</i>	Only insurance and re-insurance companies	Not specified	Market value, fair value or expert valuation
<i>Technical reserves</i>	Only insurance and re-insurance companies	<i>Not specified</i>	Market value, fair value or expert valuation
<i>Donated assets</i>	Donations, gifts and assets contributed from personal assets to the enterprise except:	Current replacement cost	Not specified
	Cash, vouchers and receivables donated to the enterprise or transferred from personal assets to the enterprise	Nominal values	<i>Not specified</i>
<i>Surpluses</i>	Surplus assets identified by physical inventory	Current replacement cost	<i>Not specified</i>
<i>Hedge accounting</i>	Assets and liabilities designated as items hedged by derivatives	See above, depending on type of asset or liability	Market value or fair value



The following section includes a comparison of (a) fines and penalties under the old (right-hand column) and the new (left-hand column) accounting acts, (b) conditions for mandatory financial audit, and (c) mandatory annual report. These topics are not covered by IAS/IFRS.

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Fines and penalties

Limits for fines and penalties were significantly increased in the New Act. Previously, tax offices were allowed to levy a fine up to Sk 500,000 for failing to obey the accounting law or up to Sk 1 million if this failure led to an inability to determine the taxable profit.

Depending on the extent and type of failure to comply with the accounting law, tax authorities may levy a fine up to 1% or 3% of total assets (assets prior to depreciation, amortization and impairment provisions), determined from the financial statements for the period being audited.

Auditing

Under § 19, separate financial statements are subject to compulsory audit for the following entities:

- a) companies that have to create base capital and cooperatives if, in the year before that to be audited, at least two of the following conditions were met:
 - total assets exceeded Sk 20 million; total assets are assets *before provisions and accumulated depreciation and amortization*;
 - net turnover exceeded Sk 40 million; net turnover means sales of the entity's own products, goods and merchandise and services rendered;
 - the average number of employees exceeded 20; the average is calculated as the average of the number of employees at the end of each quarter during the accounting period.
- a) joint-stock companies ("a.s.")
- b) other entities, if other laws require the audit (banks under § 40 of Law 483/2001 on Banks; and all foundations under § 34 of Law 34/2002 on Foundations)
- c) all legal persons that are designated by taxpayers as beneficiaries of 1% of income tax if their annual share of the tax received exceeds Sk 1,000,000.-

Consolidated financial statements must be audited (§ 22).

Previously, mandatory audit applied to companies that had to create base capital and cooperatives if, in the year before that to be audited, at least two of the following criteria were met:

- business assets exceeded Sk 20 million;
- net turnover exceeded Sk 40 million; net turnover means sales of the entity's own products, goods and merchandise and services rendered;
- the average number of employees exceeded 20; the average is calculated as the average of the number of employees at the end of each quarter during the accounting period (§ 20).

Joint-stock companies ("a.s.") were subject to mandatory audit regardless of the above criteria.

Consolidated financial statements had to be audited (§ 23).

The New Act

Mandatory annual report

An accounting entity whose separate financial statements are subject to mandatory audit (see above) must prepare an annual report. Except for foundations, this annual report must be audited (§ 19). The annual report includes financial statements, an audit report on them, and other information recommended by the law. For example, management discussion and analysis of the financial situation for the past two periods, post-balance-sheet events, projected financial information, and research and development expenditures (§ 19).

The annual report must *give a true and fair view* and must *be audited* by the end of the accounting period following that of the annual report (§ 20).

An accounting entity that has to be listed in the Commercial Register must publish its financial statements and annual report by filing these documents in the Commercial Register's Collection of Documents within 30 days of their approval (§ 21).

These rules also apply to consolidated financial statements and the annual report.

International Accounting Standards

In addition to the financial statements prepared under Accounting Act No. 431/2002, entities may publish financial information prepared under International Accounting Standards published by the International Accounting Standards Boards or under other recognized standards (§ 17). The same applies to consolidated financial statements.

The Old Act

Accounting entities whose financial statements were subject to mandatory audit (see above) had to prepare an annual report (§ 21). Financial statements and the annual report were subject to mandatory audit. The annual report had to include information to be published from financial statements, an auditor's opinion on the financial statements, significant matters related to the financial statements and an explanation of the business's past and future development and its financial statements.

The explicit requirement that the annual report must give a *true and fair view* was introduced by the New Act and was not included in the previous law.

An accounting entity that had to be listed in the Commercial Register had to *file* its financial statements and annual report with the Commercial Register *within three months* after its annual general meeting (§ 21). This deadline was effectively reduced to 30 days in the New Act. These rules also applied to consolidated financial statements and the annual report. Entities subject to audit also had to publish information from their financial statements in 'Obchodný vestník' (§ 20).

Disclosing financial statements prepared under IAS/IFRS or another financial reporting framework was not prohibited under the Old Act, therefore the reference to IAS in the New Act may be seen as an indication of the intent to convert to IAS in the future.