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ACCOUNTING AND TAX ASPECTS OF EXPENSES IN DOUBLE ACCOUNTING IN SLOVAKIA*

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Abstract. Accounting aspects of costs are defined in the Act on Accounting and Accounting Procedures, tax aspects resp. tax deductibility of costs are defined in the Income Tax Act. The aim of the article is to point out the accounting and tax aspects of costs for public administration entities as well as for business entities in the Slovak Republic. In fulfilling the set goals, the scientific method of comparison is used, which will help to identify the differences and similarities of tax and accounting aspects of cost accounting in the double-entry bookkeeping system. The comparison method will help to identify the tax and accounting aspects of cost accounting in the double-entry bookkeeping system in the Slovak Republic.

Keywords: costs; expenses; acrual settlement; taxes; tax transformation

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1. Introduction

Costs play a crucial role in an organization's economy because each managerial decision is based on a cost-benefit comparison. Costs that are recorded and reported in the accounts and financial statements represent the accounting aspect of the concept. At present, however, the tax aspect, which affects the finances of the state, is also important, and therefore the tax policy that determines the tax aspects in double-entry bookkeeping is in line with the needs of the state and also in the overall context of the European Union. In this article, we will focus on comparing these 2 aspects.

2. Literature review

In literature in this area, no special attention is paid to the comparison of these 2 aspects, which we deal with in the presented article (Henrique et al., 2020; Hajnal, 2021; Hillebrandt, Leino-Sandberg, 2021; Patel, Harrison, 2021; Polzer et al., 2021). In accounting, we report taxes as costs by type, which represent a burden for entrepreneurs and serve to signal the amount of output and sales and control expected contributions to the state budget. These are mainly income taxes, which record:

- income tax payable,
- deferred tax on income from ordinary activities,
- extraordinary activity tax payable,
- deferred tax on extraordinary activities and additional income tax levies.

Thus, it is a tax liability for the tax accounting period, or a deferred tax liability until future accounting periods. The amount of taxes payable is recorded as a liability to the tax authority (tax office). The amount of deferred income taxes is the difference between the tax base and the pre-tax profit, ie the difference between accounting and tax costs. Such an understanding has an impact on the receipt of taxes in public finances in terms of time, which sometimes causes problems in the revenue side.

Reporting deferred tax liability is important information (for both the entity, and the public authorities) that should be presented in the financial statements of companies (Jensen, 1986; Tancosova, 2014; Lee et al. 2015). The basic structure of financial statements is defined in International Accounting Standards. The authors state, in the given book, that incorrect presentation of deferred tax liability can lead to the application of basic accounting principles (Bernstein, Wild, 1999).

The financial statements and the link to the profit and loss account must also present the tax liability, which must be transparent and calculated in time. The connection and acceptance of international accounting standards IAS/IFRS is obvious and it also compares the financial statements with the US - US GAAP standards (Mládek, 2005, Epstein, Mirza, 2006; Kieso, Weygandt, 2007; Šuranová, Škoda, 2007; Drury, 2017).

The harmonization of accounting is necessary, because entities carry out business activities without borders, thus reporting tax liability in the financial statements should be harmonized with international accounting standards. Of course, the calculation and rate of taxes are individual in each country. Again, it is the harmonization of accounting and from the perspective of international compatibility and thus the possibility of comparison accounting world (Gernon, Meek, 2001).

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The article is the first part of our research task, in which we will deal with:

- Legislation of the Slovak Republic in the area of tax policy management and elements of tax management from the point of view of financial administration – i.e. income tax, extension to motor vehicle taxes, also indirect taxes.

- Comparison of laws in individual areas of financial control, in which we consider it necessary to perform a partial financial analysis, associated with the analysis of the underlying information system.

- The methods of solution will be: statistical methods-analysis, synthesis, comparison with evaluation, obtaining factual material in the way: face to face, questionnaires. This is an important area of creating the economic result, which is the main part of tax revenues and thus the fulfillment of state finances.

3. Accounting aspects of costs

Costs from the point of view of accounting are defined in Act no. 431/2002 Coll. on accounting as amended. (Foltínová 2007).The rules for cost accounting for business entities are contained in the measure of the Ministry of Finance of the Slovak Republic no. 23 051/2002-92 laying down the details of the procedures and general chart of accounts for entrepreneurs accounting in the double-entry bookkeeping system. For self-government entities, the measure of the Ministry of Finance of the Slovak Republic no. 16786/2007-31, which lays down similar details for budgetary organizations, contributory organizations, state funds, municipalities and higher territorial units (Farkaš 2020).

Costs show the monetary performance of consumption and wear and tear of assets and the consumption of borrowings in order to achieve revenue. This is a reduction in the entity's economic benefits during the period that can be measured reliably. The incurrence of an expense will create an opportunity, directly or indirectly, to reduce the entity's cash.

Costs in the double-entry bookkeeping system are charged to the profit and loss accounts of account class 5 - Costs. (Tumpach 2006). They have an increasing equivalent and are accounted for from the beginning of the accounting period. In this context, we distinguish between costs and expenses. While costs are charged to the income statement, expenses are, according to the Accounting Act, characterized as a decrease in cash or an increase in the cash equivalents of an entity and are recognized in the balance sheet accounts.
It means:

- Cost ≠ expense (cost need not be an expense of money, for example, depreciation of fixed assets) (Riahi-Belkaoui 2000)
- Expenditure ≠ an expense (the expense need not be an expense, for example, the purchase of a fixed asset
- Expenditure = an expense (an expense is recognized as an expense, for example, when paying postage in cash from a cash register), or the expense may be equal to an expense of cash (for example, in the purchase of current assets in method B that is immediately consumed).

A comparison of the cost structure of business entities and self-government entities according to the general chart of accounts is given in Table 1.

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Table 1. The cost structure by accounting groups

Business entities	Self-government entities
50 Consumed purchases	50 Consumed purchases
51 Services	51 Services
52 Personnel costs	52 Personnel costs
53 Taxes and fees	53 Taxes and fees
54 Other costs of economic activity	54 Other operating expenses
55 Depreciation and adjustments to fixed assets	55 Depreciation, provisions and adjustments from operational and financial activities and accrual settlement
56 Financial costs	56 Financial costs
59 Income taxes and transfer accounts	57 Extraordinary costs
	58 Transfer costs and costs from income payments
	59 Income taxes

Source: own processing based on measure of the Ministry of Finance of the Slovak Republic no. 23 051/2002-92 and 16786/2007-31

When accounting for costs for both monitored entities, accrued costs are applied in the accounts 381 - Deferred costs, 382 - Complex deferred costs and 383 - Deferred expenses. Accruals mean the application of the accrual principle, i.e. that costs, expenses, income and revenues are recognized in the accounting period to which they are temporally and materially related. The principle of accruality emphasizes the independence of accounting periods, which is important in quantifying the profit, or loss for the current accounting period. A micro-entity need not use accrual accounts in the case of insignificant and recurring accounting events that relate to the recognition of costs and revenues between two accounting periods, except in the case of an accounting for the accounting of grants and emission allowances.

4. Tax aspects of costs

The application of the accrual principle is very important in business entities accounting in the double-entry bookkeeping system, as they calculate the pre-tax profit according to the recorded costs and revenues. This quantified economic result is the basis for the calculation of the income tax base. They calculate income tax by transforming the pre-tax profit into an income tax base.

The transformation of the economic result means adding to the economic result non-tax deductible costs, which are defined in § 21 of Act no. 595/2002 Coll. on income tax, as amended, to analyze the costs that can be tax deducted only after payment according to § 17 par. 19 and deduct costs that are tax deductible costs under § 19 of the Income Tax Act.

The method of transformation of the pre-tax profit on the basis of corporate income tax is shown in picture No 1 below.

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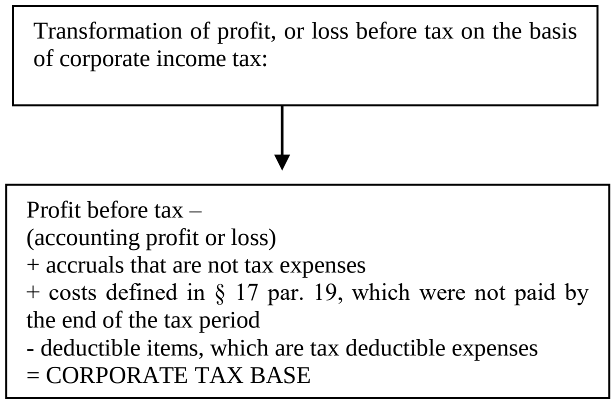

Picture 1. Transformation of profit or loss for tax purposes
Source: own processing

a) Eligible items - non-tax deductible costs are the following costs:

- representation costs,
- deficiencies and damages in excess of the compensation received,
- donations, including the residual value of permanently disposed of assets by donation,
- provisioning not recognized as a tax expense,
- creation of reserves,
- the purchase price of stocks of discarded goods,
- fees (commissions) for debt collection, exceeding 50% of the debt receivables,
- the cost of raising capital, including repayment of loans,
- costs of acquiring tangible assets, intangible assets and tangible assets excluded from depreciation,
-costs of paid-out profit shares, including profit shares of members of statutory bodies and other bodies of legal persons,
- costs of technical revaluation of fixed assets, - income costs not included in the taxable amount, - the cost of purchasing own shares in excess of the nominal value of the shares,
- creation of a reserve fund, a capital fund from contributions and other special-purpose funds in addition to the obligatory allocation to the social fund pursuant to the Social Fund Act,
- shortages and damages in excess of the compensation received, except for losses in retail sales on the basis of economically justified standards for the loss of goods set by the taxable person,
- corporation tax,
- taxes paid for another taxpayer,
- value added tax for value added tax payers,
- costs of personal consumption, including the costs of protecting the taxpayer and his relatives, the protection of the taxpayer's property which is not part of the taxpayer's business assets and the taxpayer's relatives,

Costs that the Income Tax Act calls as accruals are recorded in the accounts, but the Income Tax Act does not recognize them for tax purposes, so the entity - business entity adds them to the pre-tax profit or loss.

a) The second large group of costs for which tax deductibility is monitored are costs defined in the Income Tax Act only after payment by the end of the tax period. These costs are defined by the Income Tax Act in the provision of § 17 par. 19.

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The most common costs of this type are :
- compensatory payments paid under Act 250/2012 on the regulation of network industries to their debtor,
- rental costs for the letting of movable property, immovable property, remuneration for the granting of a right to use or for the use of an industrial property object, computer programs (software), designs or models, plans, technical and other know-how and remuneration for granting the right to use or for the use of copyright; or the rights related to copyright, while these costs and fees paid to a natural person for the relevant tax period are recognized up to the amount of the accrued amount pertaining to the tax period, - the cost of marketing studies and other studies and market research of the debtor,
- fees (commissions) for mediation with the recipient of the service, even in the case of mediation on the basis of mandate agreements
- advisory and legal services,
- contractual penalties, late fees and interest on late payments to the debtor and severance pay to the beneficiary,
- sponsorship costs for a sponsor under a sports sponsorship agreement provided during the term of the sports sponsorship agreement,
- advertising costs provided to a non-profit organization.

b) Deductible items are costs that the Income Tax Act recognizes as a tax deductible expense. For example :
- tax depreciation of tangible and intangible fixed assets,
- costs incurred for the care of employees' health,
- cost of fuels consumed,
- interest on loans for the acquisition of tangible fixed assets
- remuneration (commissions) for the recovery of a receivable up to a maximum of 50% of the recovered receivable,
- interest expense on finance leases for the entire duration of the finance lease,
- membership fee resulting from compulsory membership of a legal person,
- membership fees resulting from the optional membership of a legal person established for the purpose of protecting the interests of the payer in total up to 5% of the tax base, but up to a maximum of EUR 30,000 per year,
- travel allowances booked under the Travel Allowances Act,
- advertising costs incurred for the purpose of presenting the taxpayer's business, goods, real estate services, trade name, trade mark, trade name of products and other rights and obligations related to the taxpayer's activity,
- fuel consumption costs,
- costs for which subsidies, subsidies and contributions provided from the state budget, municipal budgets, budgets of higher territorial units, state funds and the National Labor Office were included in revenues,
- damage not caused by the taxpayer as a result of a natural disaster, such as an earthquake, flood, hail, avalanche or lightning. Also damage caused by an unknown perpetrator during the tax period in which this fact was confirmed by the police,
- vehicle tax,
- contributions to supplementary pension savings paid by the employer on behalf of employees pursuant to the Act on Supplementary Pension Savings,
- the residual value or acquisition cost of tangible assets transferred free of charge to state ownership
- the residual value of tangible assets and intangible assets disposed of due to damage up to the amount of income from compensation included in the tax base, including payments received from the sale of disposed of assets,

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- costs incurred by the taxpayer in the form of donations provided for the purpose of material humanitarian aid abroad on the basis of a donation contract concluded with the Ministry of the Interior of the Slovak Republic, expenditure (costs) on working and social conditions and health care incurred on:

  1. safety and health protection at work and hygienic equipment of workplaces,
  2. care for the health of employees to the extent provided by special regulations
  3. training of the employee, which is related to the activity or business of the employer, own educational facilities,
  4. allowances for staff meals, allowances for staff recreation and allowances for the child's sports activities provided under the conditions laid down in a special regulation,
  5. wage and other employment rights of employees to the extent stipulated by employment regulations,
  6. corporate scholarships provided to university students according to a special regulation, the cost up to the amount of the write,

- down of the nominal value of the claim which was included in taxable income, including the principal of an outstanding loan, if:
  1. the court rejected the petition for bankruptcy due to lack of assets or stopped the bankruptcy proceedings due to lack of assets, or canceled the bankruptcy on the grounds that the debtor's assets are not sufficient to cover the expenses
  2. it follows from the result of bankruptcy proceedings, restructuring proceedings
  3. the debtor has died and the claim could not be satisfied even by recovery from the debtor's heirs,
  4. the execution or enforcement of the decision shall be stopped by the court or the executor on the grounds that, after the creation of the execution title, the circumstances occurred which caused the termination of the enforced claim
  5. this follows from the decision of the Crisis Management Council

- provisions consisting of:
  1. to the acquired property,
  2. to non-expired receivables,
  3. receivables from debtors in bankruptcy proceedings, restructuring proceedings and receivables from debtors to whom the court has set a repayment schedule,
  4. non-expired receivables formed by banks and branches of foreign banks and the Export-Import Bank of the Slovak Republic,
  5. non-expired insurance receivables in the event of termination of insurance, which consist of insurance companies and branches of foreign insurance companies,
  6. non-expired claims of health insurance companies

- creation of reserves created for:
  1. untaken leave, including insurance premiums and contributions, which the employer is obliged to pay on behalf of the employee,
  2. forest cultivation activity carried out in accordance with the Forest Act. The creation of a reserve for forest cultivation activities is determined in the forest cultivation activity project
  3. liquidation of major mining works, quarries and waste from mining or mining activities and for the reclamation of land affected by mining activities
  4. landfill closure, reclamation and monitoring
  5. management of waste electrical waste from households, if the amount of the reserve calculated and proved by the taxpayer corresponds to the costs associated with the management of electrical waste

After calculating the tax base, the entity calculates the corporate tax liability and then calculates the net profit. Picture No 2 contains the calculation of tax liability and net profit.

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Corporate income tax base times tax rate = tax liability

Profit before tax minus tax liability = profit after tax (net profit)

Picture 2. Calculation of profit after tax
Source: own processing

Profit in general is the goal and stimulus of business, it is the main source of growth. It also performs other functions:
- is a criterion for decision-making
- on economic issues of the organization
- is the main source of accumulation
- the creation of financial resources for the further development of the organization
- is the basic motive of business, as well as material involvement.

The distribution of profit after tax (net profit) in business practice is decided by the general meeting of the company. The legal obligation in the distribution of profit after tax is the creation of a statutory reserve fund, with limited liability companies at least 5% of net profit, at joint stock companies at least 10% of net profit. Both companies are obliged to replenish this reserve fund every year, namely limited liability companies at least up to 10% of the share capital and joint stock companies up to 20% of the share capital. The balance of net profit either remains in the company in the form of retained earnings or can be paid out in the form of shares to shareholders.

Conclusions in terms of comparison of accounting and tax aspects

In Slovak Republic, there are the following entities for which it is possible to compare tax and accounting aspects (Table 2).

Table 2. Number of business entities and public administration in 2020

No.	Type of entity	Number
1	Micro accounting units	136 000
2	Small entities	77 000
3	Large entities	4 500
4	Public interest entities	160
5	Entities of self-goverment (municipalities and cities)	2 927

Source: own processing, based on Farkaš (2020)

Accounting aspects of costs for business entities, as well as for public administration entities in the Slovak Republic, accounting in the double-entry bookkeeping system, result from the measures of the Ministry of Finance of the Slovak Republic and serve to quantify the pre-tax profit.

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In conclusion, we can summarize the differences and similarities of these subjects in terms of comparison as follows:

Differences: businesses do not have accounts in the framework chart of accounts that belong to account groups 57 - Extraordinary expenses and 58 - Transfer costs and income tax costs. Business entities are established for the purpose of making a profit and are therefore not supported by the state budget, these accounting groups are not relevant in this context. On the other hand, self-government entities are established for the purpose of fulfilling original and transferred competencies from the state; So we see for these entities exclusively the accounting aspects of cost accounting.
As we have already mentioned, this is the main activity, because municipalities can also carry out business activities, and then the accounting and tax aspects will apply to them. The tax aspect points us to the amount of income to the state budget from business activities and is one of the indicators of the state's tax policy. On the basis of these revenues as well, the state fulfills its expenditure function in trusted finances.

In the Slovak Republic, the tax authorities perform accounting audits as well as tax audits focused on corporate income tax, VAT and other taxes (except for excise duties and real estate taxes). As part of tax audits, they point out violations of legal regulations and secure the revenue part of the state budget (Table 3).

Table 3. Number of inspections performed by tax authorities in the period 2018 - 2020

Year	**Number of inspections performed**		
	Corporate income tax	**Personal income tax**	**Checking the correctness of accounting**
2018	1.005	1.090	102
2019	1.021	1.100	175
2020	1.125	1.256	198

Source: Annual Report of the Financial Administration of the Slovak Republic - periods 2018 to 2020

Based on the number of inspections performed by tax authorities in the Slovak Republic, it follows that the structure and number of performed inspections for the monitored periods are similar. It is technically impossible to inspect all business entities and public administration entities in terms of time, so the tax administration carries out inspections on the basis of a plan that determines the detailed focus of the inspection.
The tax administration intends to streamline tax audits, focusing on detecting tax evasion even though the number of audits will be smaller but the quality will be higher.

Similarities: here we can include the accounting aspect of costs, which is information about the result of management before tax and this is processed in the Profit and Loss Statement for business entities and similarly for government entities. In the profit and loss statement, we also see the tax aspect (for public administration entities only in the case of business activities) in the part of the profit and loss statement "income tax". This item consists of two parts, namely: - income tax payable, and - deferred income tax. The total economic result for the accounting period is adjusted by this tax, which is a benefit for the state budget.

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