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INTEGRATION OF SLOVAKIA'S DOUBLE-ENTRY BOOKKEEPING INTO THE EU SYSTEM*

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Abstract. At present, the basic principle of double-entry bookkeeping in Slovakia as well as according to international accounting standards is the accrual principle. Accounting in the world as well as in Slovakia has undergone a long development, as long as the accounting units could apply this principle in practice. The article is based on the requirements of the European Union and takes into account two assumptions: accrual basis and continuous duration in terms of business operation. The aim of the presented article is to compare the cash and accrual principle in the accounting of the Slovak Republic according to international accounting standards. In the article, we applied the research method - comparison / accrual and cash principle. We used the method of comparison and the method of analysis of performed controls. The article contains a presentation of the results of the control activities of the Supreme Audit Office of the Slovak Republic and the Financial Administration of the Slovak Republic, which these institutions performed at public administration entities and business entities.

Keywords: international standards; accrual system; cash system, control of accrual accounting

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1. Introduction

The development of accounting in the Slovak Republic has gone through various phases. The development of accounting was a complex process in order to reach a level so that international accounting standards can be applied to the legislation in force in the Slovak Republic. An important change in the legislation of the Slovak Republic - within the application of international accounting standards - was the introduction of the obligation to apply the accrual principle to accounting for public administration entities as well as for business entities. This obligation has been introduced into accounting procedures through accounts that are in account group 38 - Accruals also affect the application of costs in accounting units.

2. Literature review

Quality financial information is important for effective management in the public, private, but also business sectors. Providing databases of relevant information is the task of accounting and for the presentation of results within the European Union. This information must comply with the international accounting standards IAS / ISFR.

Thorough harmonization means correct reporting of business activities and this is what the authors deal with in the work (Jensen, 1986; Riahi-Belkaoui, 2000; Riahi-Belkaoui, 2000; Tumpach, 2006; Saxunová, et al. 2009; Kršková, 2011; Farkaš, 2020; Beretta, Cencini, 2020; Sidak, Hajnišová, Fabuš, 2020; Schroeder, 2000; Hajnal, 2021; Hillebrandt, Leino-Sandberg, 2021). Similarly, other literature (Epstein, Mirza, 2006) pays attention to accounting standards in terms of their origin and their subsequent interpretation in various types of organizations across their breadth.

International Accounting Standards IPSAS mean the unification of accounting and reporting of public administration with the business sphere. This requires the need for comparison and evaluation of organizations in individual EU countries. The standards cover various areas of the organization's functioning and make up a total of 31. Their application and implementation is a complex process that is dealt with in detail by the authors.

3. Present EU accounting requirements

The basic legal framework for the European Union's accounting is international accounting standards. After the accession of the Slovak Republic to the European Union, it was necessary to harmonize indicators for the evaluation of individual areas of state functioning; this also applies to indicators that express the outputs of the processes of companies and various institutions. And these outputs are represented by double-entry bookkeeping, which we deal with in this article.

International Accounting Standards mean the unification of financial accounting and reporting. This was necessitated by the need to compare and evaluate entities in individual EU countries. The common focus in the countries of the European Union is the effort to unify the accounting of the state and public sector on an accrual basis, while the European Commission recommends the use of International Accounting Standards for the public sector.

The International Federation of Accountants (IFAC) plays an important role in relation to international accounting standards. Founded in 1977, the company currently consists of 172 members and partners in 129 countries, representing approximately 2.5 million accountants from practice, education, civil service, industry and commerce. This federation contributes to the development, adoption and implementation of high quality international accounting standards (Štangová, Víghová, (n.d)). IFAC publishes manuals, standards and other publications and owns the copyrights (Kršeková, 2011).

IFAC has established the International Accounting Standards Board. At present, there are international accounting standards for:

- Public Sector Accounting Standards (IPSAS), and
- Business entities International Accounting Standards IAS (International Accounting Standards) until 2002, from 1st January 2003 International Financial Reporting Standards - IFRS (International Financial Reporting Standards). Within the European Union, the Commission is working to modernize the management of EU funds. In December 2002, the Commission presented an action plan for the transition to the accrual principle. In practice, this means that a new accounting system called "Accrual Based Accounting" has been introduced since January 2005 and new accounting rules have entered into force.

International Public Sector Accounting Standards IPSASs contain a set of 32 standards. IPSASs are aimed at improving quality and transparency in the public as well as in the business sector of financial accounting and reporting, as well as accounting methodology. Countries such as Switzerland, Austria, the Netherlands, France have already fully or partially implemented this standard in their legislation.

In terms of content, IPSASs must comply with International Standards IAS / IFRS. Table 1 provides an overview of standards based on the accrual principle.

Table 1. Overview of standards based on the accrual principle.

IPSAS Standard	Release date	IAS / IFRS on which the relevant IPSAS is based
IPSAS 1	2000	IAS 1 – Presentation of Financial Statements
IPSAS 2	2000	IAS 7 – Cash Flow Statements
IPSAS 3	2000	IAS 8 – Accounting policies, Changes in Accounting Estimates and Errors
IPSAS 4	2000	IAS 21 – The Effects of Changes in Foreign Exchange Rates
IPSAS 5	2000	IAS 23 – Borrowing Costs
IPSAS 6	2000	IAS 27 – Consolidated Financial Statements and Separate Financial Statements
IPSAS 7	2000	IAS 28 – Investments in Associates
IPSAS 8	2000	IAS 31 – Interests in Joint Ventures
IPSAS 9	2001	IAS 18 – Income from Ordinary Activities
IPSAS 10	2001	IAS 29 – Financial Statements in Hyperinflationary Economies
IPSAS 11	2001	IAS 11 – Contracts
IPSAS 12	2001	IAS 2 – Inventories
IPSAS 13	2001	IAS 17 – Leases
IPSAS 14	2001	IAS 10 – Events After the Reporting Date
IPSAS 15	2001	IAS 32 – Financial Instruments – Disclosures
IPSAS 16	2001	IAS 40 – Investment Property
IPSAS 17	2001	IAS 16 – Property, Machines and Equipment
IPSAS 18	2002	IAS 14 – Reporting Segment Information
IPSAS 19	2002	IAS 37 – Reserves, Contingent Liabilities and Contingent Assets
IPSAS 20	2002	IAS 24 - Related Party Disclosures
IPSAS 21	2004	IAS 36 – Impairment of Assets

IPSAS 22	2006	There is no relevant IAS/IFRS on which the IIPSAS is based
IPSAS 23	2006	There is no relevant IAS/IFRS on which the IIPSAS is based
IPSAS 24	2006	There is no relevant IAS/IFRS on which the IIPSAS is based
IPSAS 25	2008	IAS 19 - Employee Benefits
IPSAS 26	2008	IAS 36 - Impairment of Assets
IPSAS 27	2009	IAS 41 - Agriculture
IPSAS 28	2010	IAS 32 – Financial Instruments: Presentation
IPSAS 29	2010	IAS 39 – Financial Instruments: Recognition, Measurement
IPSAS 30	2010	IFRS 7 – Financial Instruments: Disclosures
IPSAS 31	2010	IAS 38 – Intangible Assets

Sources: Kršeková (2011) p. 25; Štangová, N., Výchová, A. (n.d).

The accrual accounting system has been implemented in International Accounting Standard IAS 1 - Presentation of Financial Statements. This standard requires entities to present costs and revenues on an accrual basis in the comprehensive income (statement of comprehensive income - uses IAS 1, in Slovakia it is called the income statement).

According to International Accounting Standards, the preparation of financial statements is based on two basic assumptions, namely the accrual basis and the principle of going concern.

a) Accrual basis - According to this principle, the effects of transactions and other events are recognized and recognized when they arise, and not when the cash or cash equivalents associated with those transactions are received or received. paid. This is a basic principle of double-entry bookkeeping. It must be the case that the transactions are recorded in the books and reported in the financial statements in the period to which they relate. Therefore, the financial statements, which are prepared on an accrual basis, inform users not only of past transactions but also of the obligation to pay cash and cash equivalents in the future. The objective of an accrual basis of accounting is for the financial statements to provide a realistic view of its elements, making it as useful as possible for its users in making economic decisions. The accrual basis of accounting is characterized by two basic principles, namely the implementation principle - in relation to the company's revenues, and the principle of assigning costs to revenues.

b) The principle of continuous business duration. The financial statements are prepared on a going concern basis and will continue to operate in the near future. Therefore, it is assumed that the entity does not intend or is not forced to liquidate or substantially reduce the scope of its operations. (Krištofík, Šuranová, Saxunová, 2009).

Accounting according to international accounting standards must also meet qualitative characteristics.

These are the features that make the information in the financial statements useful to users.

International Accounting Standards define four primary qualitative characteristics of financial statements, namely: comprehensibility, relevance, reliability and comparability.

Comprehensibility - Users are expected to have sufficient knowledge of business and economic activities, accounting and a willingness to examine information with due care.

Relevance - Information from financial statements can be considered relevant when it influences users' economic decisions by helping them to assess past, present or future events.

Reliability - means that information from financial statements is useful, it must be reliable. Information is reliable if it does not contain a serious error and is not one-sided.

Comparability - Users of accounting information must be able to compare the entity's financial statements over time in order to identify trends in its financial position and profitability.

Accounting harmonization is the process of approximating accounting principles, accounting methods, accounting and balancing rules, and in particular the content of countries' financial statements, so that they are comparable and transparent to users of financial statement information in any country in the world.

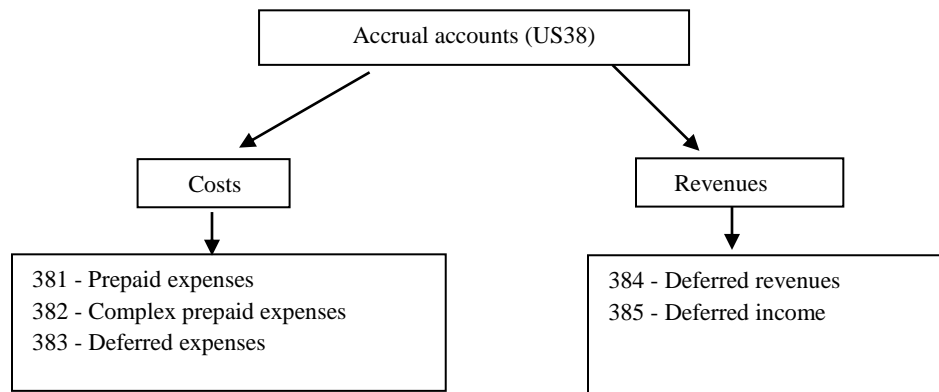
The process of international harmonization of accounting in the world takes place in several directions, which manifest themselves as:

1. Harmonization within a given community of countries (eg within the European Union, within the countries of South Africa, in Asia, in South America, etc.)
2. Global harmonization of accounting, in which there are two comprehensive sets of standards:
 - International Financial Reporting Standards - IFRS
 - US Generally Accepted Accounting Principles (US GAAP). (Šlosár, Novák, 2010).

The implementation of EU accounting regulations into Slovak legislation was necessary with the moment of Slovakia's accession to the EU. (Mládek, 2005). Accounting units also perform business activities outside the territory of the Slovak Republic (for example, through organizational units, permanent establishments). At the same time, the valid Act on Accounting in the Slovak Republic in § 17a precisely defines which accounting units are obliged to compile financial statements exclusively only in accordance with international accounting standards. For example: banks, a management company, an insurance company other than a health insurance company, a reinsurance company, a branch of a foreign bank, a branch of a foreign management company and other entities listed in the law. There are entities that may account in accordance with IAS / IFRS: if it issued securities during the accounting period and these were admitted to trading on a regulated market. In EU Member States, these entities are required to account for and report data under IAS / IFRS, the number of which in 2020 is 7,365.

The first law on accounting in the Slovak Republic was Act no. 563/1991 Coll. on accounting. This law did not yet contain elements of accrual accounting. Only another law on accrual accounting was introduced in the Slovak Republic from 1.1. 2003 when Act no. 431/2002 Coll. on accounting. The individual framework chart of accounts contains account group 38 - Accruals. European Union directives have been implemented in this legal norm.

For the first time, the accrual accounting system was introduced in the Slovak Republic by Act no. 563/1991 Coll. into which legal norms the directives of the European Union have been implemented. Prior to this period, in the Slovak Republic, entities did not account for accruals of costs, revenues, income and expenses. From 1.1. 2003 is valid law no. 431/2002 Coll. on accounting, which shows all accounting entities accounting in the double-entry bookkeeping system to apply the accrual principle, ie accrual of costs, revenues, income and expenses. This applies to public administration entities, business entities (small and large accounting units), non-profit organizations. The individual framework chart of accounts contain (Picture 1).



Picture 1. Accrual Accounts for the Accrual Principle
Source: authors' own processing

4. Accrual versus cash accounting system

a) Cash system

Cash accounting provides information on the flow of cash, while the cash basis is easily controllable in terms of the collection of tax revenues. Allows you to control expenses. It ignores other cash flows. The cash system is simpler and less subjective. The compilers of financial statements are not forced to make decisions in determining the amount of cash flows and have the ability to control the timing of cash flows by withholding payments and, where appropriate, to influence financial results in a positive or negative sense. Thus, all cash receipts and expenditures, regardless of their type, are recognized at the time they are received or provided. However, this system does not represent the satisfaction of information needs at present.

b) Accrual system

This system takes into account costs and revenues, income and expenses - in the accounting period in which they were incurred, it also provides information on assets and liabilities, regardless of the date of their payment or collection (Drury 2017). It is provided by accruals and thus expresses the independence of accounting periods, which is important in quantifying the economic result for the current accounting period. These transactions are recognized in the period in which they arise and not in the period in which the cash associated with the transactions is received or paid. The accrual principle contributes to the financial statements presenting the facts about the management of the organization faithfully and truthfully. The accrual model is linked to the chart of accounts in accordance with International Accounting Standards IAS / ISFR.

When comparing these two systems, we see the following facts:

Cash system:

- reporting transactions only in the case of receipt or payment of funds
- does not distinguish between the purchase of assets and the payment of expenses
- does not track revenues, only costs.

Accrual system:

- records related transactions in the period in which they are incurred,
- monitors costs and revenues in a certain correlation,
- gives a good overview of assets and liabilities,
- facilitates liquidity provision,
- from an analytical point of view, it allows transparency and accountability.

5. Accounting Information Reporting

In order to meet the needs for the information system of the European Union, double-entry accounting in the Slovak Republic must have absolutely reliable reporting. Accounting information is used by the management of the accounting entity, therefore it is expected from them completely correctly processed accounting information in terms of content and form. They are affected to some extent by the type of entity and the purpose for which the information will be used. Reporting therefore shows financial transactions and especially their effects and economic events in the organization. These are mainly financial statements whose basic components are directly related to the measurement of the financial situation - in the balance sheet, which includes assets, liabilities and equity, and the measurement of profitability - in the income statement in terms of costs and revenues. Reporting these components in individual reports requires further breakdown. The basis of reporting is to point out and know the links and internal logic using the created reporting indicators, according to which the performance of the organization will be measured. Therefore, in order to be meaningful, every reporting must follow certain rules, namely: goal orientation, problem location orientation, also activity orientation.

The method of presentation is also important in order to meet the information needs and requirements of users. Approaches to the reporting view can be as follows:

5.1. By subject

Here we start from the accounting defined by the Accounting Act, where the basic types of accounting information relating to assets and resources and expenditures and revenues, costs and revenues and the resulting profit are identified. (Šuranová, Škoda, 2007). This information is presented in the financial statements and can be presented as follows (Table 2):

Table 2. Quantitative indicators, arranged by purpose

The Goal	Information for Decision-Making		
Financial Characteristic	Financial Situation	Profitability	Detailed Information
Statement	Balance Sheet	Profit and Loss	Notes
Type of information	Financial Structure	Profitability	
	Liquidity	Efficiency	
	Solvency		
	Indebtedness		

Source: Authors' own processing

The table contains quantitative indicators, arranged according to **the purpose** in a clear and comparable way.

5.2. According to the method

Here, tabular processing and detailed elaboration of notes on individual accounting data are important. (Farkas 2020).

Emphasis should be placed on:

- fixed assets, their valuation, depreciation and also the source of their financing
- receivables and the need for provisions
- financial accounts in terms of the source of their use
- equity and its movement - liabilities and their maturity
- reserves and their drawing and creation
- finally, costs and revenues by type.

5.3. According to time

Accounting information of several time periods has a better explanatory power, from which the development is visible in the current as well as time shift, which will enable the prediction of development trends of a certain area in the organization.

5.4. By type

This aspect makes it possible to monitor the actual and planned information and especially the differences resp. deviations between them, which is important for the company's management, because it directs attention to the problems in the form of deviations and thus to their solution.

6. Performance of accrual accounting control

a. Control of compliance with accounting - including compliance with the accrual principle - in public administration entities is performed in the Slovak Republic by the Supreme Audit Office of the Slovak Republic. The Supreme Audit Office has the authority to carry out audits pursuant to the Act on the SAO in the area of management with:

- by means of budgets approved by law by the National Council of the Slovak Republic or the Government of the Slovak Republic,
- property, property rights, funds, liabilities and receivables of the state, public institutions, the National Property Fund of the Slovak Republic, municipalities, higher territorial units, legal entities with state ownership, legal entities with ownership of public institutions, legal entities with the Fund's ownership national property of the Slovak Republic, legal entities with property participation of municipalities, legal entities with property participation of higher territorial units, legal entities established by municipalities or legal entities established by higher territorial units,
- property, property rights, funds and receivables provided to the Slovak Republic, legal entities or natural persons within the framework of development programs or for other similar reasons from abroad,
- assets, property rights, funds, claims and liabilities for which the Slovak Republic has taken over the guarantee,
- property, assets, funds, debts and liabilities of legal persons carrying out activities in the public interest.

During inspections in 2020, there were found violations of generally binding legal regulations, internal regulations or the conditions of concluded contracts in 1,077 cases. In the protocols on the result of the inspection, it was proposed to the 28 inspected entities 129 recommendations to eliminate the deficiencies found during the inspection. The audited entities took a total of 454 measures to eliminate the deficiencies identified during the inspection. In the area of accounting, the following violations of the Accounting Act as well as accounting procedures were found:

- the accounting was not kept correctly, completely, provably and clearly - which can be defined as a basic rule of accounting under the Accounting Act - this rule was violated in 10 municipalities,
- the accounting documents did not contain all the requisites prescribed by law - violation found in 7 municipalities,
- non-compliance with accounting procedures in the form of incorrect accounting of accounting cases - violation found in 28 municipalities,
- recorded accounting cases to the period with which the accounting case was not related - in 7 municipalities,
- the financial statements did not contain a true and fair view of the facts that are the subject of the accounts - the breach was found in 6 municipalities,
- the municipality did not carry out an inventory of assets and liabilities and the difference between assets and liabilities under the Accounting Act - violations were found in 12 municipalities.

In 28 cases, the Supreme Audit Office reported violations of legal regulations to the relevant state administration bodies (bodies active in criminal proceedings, the Ministry of Finance of the Slovak Republic, the Government Audit Office, the Public Procurement Office) and they will carry out further proceedings.

b. Control of bookkeeping at business entities is performed by tax authorities. The founder of the tax offices is the Financial Directorate of the Slovak Republic.

Among other functions, the Tax Office performs the following functions:

- carry out tax administration,
- decide in administrative proceedings,
- control the collection and payment of administrative fees, which are revenue of the state budget, return administrative fees paid by stamps, impose fines and collect administrative fees, which are revenue of the state budget, transfer the total amount of administrative fees remitted by other administrative bodies to the state budget,
- return court fees on the basis of a decision of a court or a state administration body of the courts, transfer the total amount of court fees remitted by the courts to the state budget,
- inform taxable persons of their rights and obligations in tax matters and of special rules,
- report to law enforcement authorities suspected of having committed criminal offenses in connection with a breach of special regulations; inform the financial directorate of these suspicions,
- carry out tax audits.

They provide revenues to the state budget through tax audits. The tax authorities have the power to audit the accounting of business entities within the focus of control activities.

Table 3. Comparison of the results of control activities for the years 2018 - 2020

	2018	2019	2020
Number of Tax audits	11.823	10.965	7.916
Of which number of inspections with findings	5.683	6.475	5.469
Findings from performed inspections (in thousands of €)	701.368	670.056	618.611

Source: Annual Report of the Financial Administration of the Slovak Republic

Table 3 contains the results of tax audits, including the effectiveness of audit activity.

Conclusions

Based on the number of inspections performed by tax authorities in the Slovak Republic, it follows that the structure and number of inspections performed for the monitored periods are similar. When comparing the numbers of natural and legal persons, it is clear that it is not possible to control all business entities by the tax office. The tax administration strives to streamline tax audits with a focus on detecting tax evasion, even though the number of audits will be smaller but the quality will be higher. It is therefore important, as follows from the article, to prepare thorough reporting of the situation and thus facilitate the possibility of streamlining tax audits. Also in the preparation of the information system for tax audits is important within reporting profits and losses; of course, ensure all activities in compliance with standards and guidelines issued by the EU.

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