FINANCIAL STATEMENT

2019

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Dear Client,

With the end of the year closely approaching, we would like to take this opportunity to draw your attention to the need to carry out some essential tasks for the proper maintenance of your accounts, the preparation of financial statements and the tax return, as the year end will bring an increased workload, particularly concerning the need to close the books.

1. Audit obligation and deadlines for submitting corporate income tax return

Limited liability companies, joint-stock companies and cooperatives are subjects to audit obligation if at least two of the following conditions are met:

(i) Total gross assets exceed EUR 1 mil.
(ii) Revenues exceed EUR 2 mil.
(iii) Average calculated number of employees exceeds 30

At least two of these conditions must be met at the date of financial statements and for the preceding accounting period.

Deadline for submitting the tax return for 2018 is generally 31st March 2019.

An extension of the term for another 3 months can be announced to the tax office by the tax payer (6 months for tax payers with foreign sources of income).

2. Asset and liability inventory

Pursuant to the Slovak Accounting Act an accounting unit is obliged to take stock of its assets physically. The term ‘assets’ includes all tangible and intangible assets as well as inventory at warehouses, currency funds, etc. If stock cannot be taken at the end of the accounting period, it can be taken within the last 3 months of the accounting period or within the first month of the subsequent period. In any case, valuation of the stock has to be determined as per the balance sheet date (i.e. as per 31st December.).

Inventory has to be documented by written records. Inventory differences (shortages, surpluses) are recorded on the income statement.

For liabilities and receivables, the inventory is carried out in the form of written reconciliation with clients and suppliers.

Cash on hand and cash equivalents are also subject to a physical inventory. Cash on hand must be inventoried at the end of the year.

It is necessary to assess also the real value of the assets on stock during the inventory taking as well as the risks associated with their contingent sale (e.g. unsellable stock, damaged stock, unpaid receivables) and reflect it in the accounts using adjustments, reserves or permanent depreciations.

Every company must prove that it has taken the inventory and it must dispose of inventory results and records of book entries taken upon discovered inventory differences for the minimum of 5 following years.

3. Recording of costs and revenues in the correct time period

At the end of the accounting period it is necessary to thoroughly separate costs and revenues that belong to the next period. It is also necessary to verify whether all the revenues of the closed year were really invoiced and whether the books take into account invoices from suppliers for all deliveries received.

If it is not possible to obtain an invoice from a supplier in time your accountant has to be informed so that reserves and accruals can be set aside.

Concerning work in progress, the value of already invested costs must be capitalized, which will ensure that a long-term project will influence income only in the year in which it is completed. In case of job–order manufacturing (e.g. work contracts – construction projects) the proportion of the profits determined by the degree of the finished order has to be capitalized.

4. Making adjustments to receivables

Adjustments of receivables which are time barred but due

It is possible to make a tax deductible adjustment for receivables which are not time barred which have been included in the taxable income before. These adjustments are limited as follows:

a) more than 360 days overdue, adjustment up to 20% of nominal value
b) more than 720 days overdue, adjustment up to 50% of nominal value
c) more than 1 080 days overdue, adjustment up to 100% of nominal value

Such adjustment will not be tax deductible if it is possible to offset the receivable with an overdue payable against the taxpayer's debtor.

The rules mentioned above are intended to assess the tax effect of adjustments made. Concerning accounting only, adjustments shall always be made properly no matter whether they are tax deductible or not.

5. Reserves

Reserves

Setting aside reserves due to the following reasons:

- unspent holidays including insurance and contributions which an employer must pay for an employee – taxable
- supplies and services not invoiced at balance sheet date
- compilation, verification and publishing of the financial statements and the annual report and compilation of the tax return – not taxable
- reserves for produced emissions
- forest activity according to the special regulations
- liquidation of mines, disposal of waste concerning mining.
- closing, recultivation and monitoring of waste-dumps following their closure
- liquidation of household electronic waste.

6. Taxation of unpaid liabilities

Taxation of unpaid liabilities

Debtors must tax liabilities which are **overdue for more than 360 days**, if these relate to:

a) liabilities concerning tax deductible expenses
b) depreciable and non-depreciable fixed assets
c) liabilities concerning stock

Taxation:

a) 360 days, minimum 20% of the nominal value of the outstanding liability or its unpaid part
b) 720 days, minimum 50% of the nominal value of the outstanding liability or its unpaid part

c) 1080 days, minimum 100% of the nominal value of the outstanding liability or its unpaid part

This procedure does not involve enterprisers who use a single–entry bookkeeping system.

7. Exchange rate differences

Foreign currency funds, liabilities and receivables are converted on the balance sheet day using the exchange rate announced by the European Central Bank as per that day. These exchange rate differences are to be recorded in the income statement with full tax impacts.

8. Accounting guidelines

The Act on Accounting and related regulations enable alternative solutions to a number of accounting issues. This however might influence the tax base of the particular period.

As a result it is inevitable that each accounting unit determines its own accounting policy concerning keeping records and stock-taking in these particular issues. Additionally each accounting unit must have these principles taken down in its internal guidelines and directions.

Internal guidelines shall be mainly compiled to govern these areas:

- Bookkeeping
- Stock-taking of assets, liabilities and treatment of the differences
- Records, valuation and depreciation of fixed assets
- Valuation, accounting, records and stock-taking of inventories

Shall you have any questions do not hesitate to contact us.

Straková Dáša

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