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Register of financial statements as instrument of transparency in financial administration

Abstract. The Register of Financial Statements, established in Slovakia by the Act on Accounting in 2011, is a public administration information system within which accounting entities file financial statements, audit reports and annual reports. The Register represents an investment which simplifies business in the Slovak Republic and provides the public with an access to information online. The Register serves as an instrument for macroeconomic analysis and forecasting, as well as for detecting tax evasion. The authors' objective is to analyse the legal and financial effects of the Register of Financial Statements creation and evaluate the positive and negative effects of its introduction on entrepreneurs.

Keywords: Accounting; Register of Financial Statements; Public Information System; Slovakia

JEL Classification: K23, M41, M48

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Реєстр фінансової звітності як інструмент прозорого фінансового управління

Анотація. Реєстр фінансової звітності, введений у дію в Словацькій Республіці Законом «Про бухгалтерський облік» в 2011 р., являє собою інформаційну систему державного управління, що складається з фінансової звітності, аудиторських і річних звітів, та спрощує ведення бізнесу в Словацькій Республіці, а також забезпечує доступ громадськості до інформації в мережі Інтернет. Представлений документ є інструментом макроекономічного аналізу й прогнозування, а також виявлення суб'єктів, які ухиляються від сплати податків. Метою статті є аналіз правових та фінансових наслідків створення Реєстру фінансової звітності й оцінка позитивних і негативних наслідків введення його в дію.

Ключові слова: бухгалтерський облік; реєстр фінансової звітності.

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Ключевые слова: бухгалтерский учет; реєстр фінансової звітності.

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1. Introduction. The Slovak Republic recorded a reduction in its ranking within the super index with regard to the business environment in 2007 and 2008. The high administrative burden of the business environment was one of the reasons for its unfavourable ranking. Act No. 431/2002 Coll. on Accounting as amended [10] was among the forty-eight Acts assessed as part of the measurement of administrative burden and administrative costs. According to the analysis results, it ranked second with a share in total administrative costs of 26.53% [1].

The high share of costs borne by entrepreneurs was related to their statutory obligation to meet various information requirements and to submit documents to a variety of state administration bodies. For this reason, consideration was given to the introduction of a way in which their obligations could be met electronically; this would allow the respective public administration bodies to share the information without a requirement

on the part of the entity to submit documents on the basis of a variety of specific Acts.

The search for the relevant material means and the creation of a legal environment for their application were supported by the European Union's requirement to reduce the administrative burden on entrepreneurs in the Member States. According to the European Union, accounting represents a major area where the administrative burden can be reduced in order to enhance the European economy, hence, this issue is of top priority for scientific research and the exchange of experience between the Member States.

2. Brief Literature Review. Slovak and foreign authors have dealt with the issue of reducing the administrative burden in accounting. In particular, A. Slosarova, B. Soukupova, A. Bastincova (2004) [2] researched the theory financial statements reporting in Slovakia. Technical works are based on the

European Union's legal Acts [3; 4; 5]. M. Tumpach (2003), A. Filip (2014), B. Raffournier (2014), Z. Rezaee (2010) L. M. Smith and J. Z. Sendi (2010) [6; 7; 8] dealt with the accounting reform in the EU. M. Fabus (2011) worked on the business environment development which impinged significantly on the administrative burden of business entities [9].

3. Purpose. To focus on the legal and financial impacts of Register of Financial Statements formation in Slovakia.

4. Results. The creation of the Register was a national measure taken by the Government of the Slovak Republic in 2011. Its objective was to introduce a national public administration information system and to reduce the costs for entrepreneurs with regard to their obligation to submit financial statements under Act No. 431/2002 Coll. [10]

The Register of Financial Statements was not only intended to become an instrument of transparency for the registration of financial statements of accounting entities, but it was also to significantly improve the availability and quality of economic and other information and information on public institutions in the Slovak Republic.

The following hypotheses were posited in order to achieve the objective of the research:

H1: The introduction of the Register of Financial Statements will reduce the costs of the publication of financial statements.

H2: The introduction of the Register of Financial Statements will increase the transparency of the registration of financial statements of entities.

These hypotheses are evaluated in the part of the article devoted to the financial aspects of the creation of the Register of Financial Statements.

Financial Statements as an Accounting Instrument. Economic literature defines the substance of accounting as follows: «Accounting represents a relatively closed and internally well-ordered system of information which provides information, expressed in monetary terms, on the economic activity of the company and on the results of this activity, i.e. it provides information on the company's assets, equity, liabilities, income, expenses, cash receipts, cash payments and profit or loss» (Soukupova, Slosarova, Bastincova, 2004, p. 11).

Pursuant to Section 2 par. 2 of Act No. 431/2002 Coll., the subject of the accounting shall be accounting for: a) the balance and movement of assets; b) the balance and movement of liabilities; c) the difference between assets and liabilities; d) income; e) expenses; f) cash receipts; g) cash payments; h) net profit/net loss of the accounting entity. Pursuant to Section 2 par. 3 of the Act, the subject of the accounting shall also include the presentation of facts in the financial statements with regard to these accounting transactions, as well as the presentation of off-balance sheet assets and off-balance sheet liabilities in the financial statements. The Act defines the financial statements as a structured presentation of facts subject to accounting provided to those who use this information [10].

The accounting entity shall be required to ensure that its financial statements display information reflecting the state existing as of the balance sheet date; the same shall apply mutatis mutandis to all accounting entries made as of that date, unless stipulated otherwise by this Act. In so doing, the accounting entity shall also take into consideration information relating to the state existing as of the balance sheet date and which the accounting entity has acquired by that date.

The information shown in the financial statements must, under the law, be of use to the user. The information shall be valued in terms of significance and must be: comprehensible; comparable; reliable.

The information shall be deemed to be significant if its absence or inaccurate presentation in the financial statements could influence the judgement or decision-making of the user.

As an instrument of financial administration, the new register must respect and ensure all these statutory accounting requirements. For this reason, an amendment was required to the legal regulation in force [11].

Creation of Register of Financial Statements Project. The task to create the Register followed from the Manifesto of the Government which approved the proposed Register of Financial Statements on 10 August 2011.

Accordingly, the objectives of the introduction of the Register of Financial Statements were:

- to avoid accounting entities having to submit financial statements to several state authorities;
- to eliminate the frequent repetition of requests for the information, documents and data of entrepreneurs;
- to create a stimulus for the extensive utilisation of electronic communications between entrepreneurs and public administration, including the electronic verification system.

Legal Aspects of the Creation of the Register of Financial Statements. The creation of the Register of Financial Statements did not and does not affect the obligation on the part of the Slovak Republic to ensure that the duly verified annual financial statements and annual report, together with the report submitted by the person authorised to perform the audit of the annual financial statements, be disclosed in the manner stipulated by the valid legal regulations.

At the time of the creation of the Central Register of Financial Statements, this obligation ensued from Art. 47-49 of the *Fourth Council Directive 78/660/EEC of 25 July 1978 based on Article 54 (3) (g) of the Treaty on the annual accounts of certain types of companies valid at that time. Currently, this obligation is met pursuant to Art. 30 par. 1 of Directive 2013/34/EU of the European Parliament and of the Council of 26 June 2013 on the annual financial statements, consolidated financial statements and related reports of certain types of undertakings, amending Directive 2006/43/EC of the European Parliament and of the Council and repealing Council Directives 78/660/EEC and 83/349/EEC Text with EEA relevance* [3; 4].

In adopting the draft project of the Register, it was also necessary to resolve the legal relation between the new central disclosure instrument and the existing obligation pursuant to a special law to disclose the financial statements in the existing Collection of Deeds of the Business Register, as well as in the Journal of Commerce. The initial proposal suggested abolition of the obligation to disclose financial statements in the Collection of Deeds of the Business Register, and to publish them exclusively in the Central Register of Financial Statements. The Ministry of Justice disputed this proposal. It noted that this would be in breach of Slovakia's obligation to transpose the requirement of Art. 2 and 3 of *Directive 2009/101/EC of the European Parliament and of the Council of 16 September 2009 on coordination of safeguards which, for the protection of the interests of members and third parties, are required by Member States of companies within the meaning of the second paragraph of Article 48 of the Treaty, with a view to making such safeguards equivalent.* The issue in dispute was resolved by an agreement on the method of depositing financial statements. Currently, the legal situation is such that, by depositing the documents in the Register of Financial Statements, the obligation to deposit the documents in the Collection of Deeds of the Business Register is deemed to be satisfied [5].

The Register of Financial Statements was introduced by an amendment to the Act on Accounting No. 547/2011 Coll. Its creation, as well as a later amendment to the Act, did not also have a direct effect on the legal position of micro-entities, i.e. accounting entities meeting the requirements of Art. 1a of *Directive 2012/6/EU of the European Parliament and of the Council of 14 March 2012 amending Council Directive 78/660/EEC on the annual accounts of certain types of companies as regards micro-entities* because the creation of the Register of Financial Statements could not be considered to be an administrative measure of the state taken for the purpose of primarily achieving the objective of this Directive [10; 11].

Directive 2012/6/EU of the European Parliament and of the Council is based on the premise that micro-entities, which have limited resources for compliance with demanding regulatory requirements, are subject to the same financial reporting rules as larger business entities. Accordingly, EU Member States should take into consideration the specific conditions and needs of their markets in determining how and whether to introduce a special regime for micro-entities. The legal regulation which simplified the accounting statements for small business entities represents such a special regime in Slovakia; it introduced the option of presenting a simplified balance sheet, profit and loss

account and abbreviated notes (submitted in 2015 for the 2014 accounting period). Although the Directive provides for the introduction of a special regime for micro-entities, Slovakia only introduced simplified reporting of the balance sheet and profit and loss account in an abbreviated form for micro-entities which they deposit in the Register of Financial Statements.

Creating the Register of Financial Statements, it was anticipated that this would be beneficial for entrepreneurs and the state.

With regard to entrepreneurs, the following were predicated:

- reduction in their administrative burden;
- acquisition of economic information on entities with which they enter into supplier-customer relations, intended to be an instrument for reducing the business risk and improving the solvency of companies.

With regard to the state, the following were predicated:

- reduction in costs for financial statements repeated processing;
- acceleration in transfer of data from the financial statements of entrepreneurs to state administration bodies for macro-economic decision-making (analyses and forecasts);
- increase in the efficiency of control functions (e.g. meeting information obligations and financial statements auditing).

Currently, under Act No. 431/2002 Coll., the Register is a public administration information system administered by the Ministry of Finance of the Slovak Republic. DataCentrum, a wholly state-funded organisation, is the operator of the Register [10].

Accounting entities are obliged to deposit in the Register those documents stipulated by law (e.g. ordinary individual financial statements, ordinary consolidated financial statements, summary financial statements of public administration). If the accounting entity prepared the financial statements on its own initiative, it may also deposit them in the Register [10].

The accounting entity is responsible for the accuracy of the documents deposited. The documents are deposited in the language of the state and, at the decision of the accounting entity, they may also be deposited in a foreign language.

The Register is divided into the public and non-public parts [10].

The financial statements of enterprises, cooperatives, state-owned companies, public administration entities and accounting entities that keep their books in accordance with the international accounting standards and of other selected accounting entities are available in the public part of the Register. The financial statements of accounting entities which are not included in the public part are included in the non-public part of the Register. These are largely the financial statements of entrepreneurs – natural persons and non-profit organisations which are under no obligation to disclose their statements.

The Act stipulates the legal period for depositing the ordinary and extraordinary individual financial statements of the accounting entity. If the accounting entity does not have its financial statements approved within this legal period, it deposits the unapproved financial statements. The notification of the date of approval of the financial statements is deposited in the Register subsequently [10].

The delivery of documents in the way stipulated by the law (deposition in the Register) is deemed to be the legal moment of the accounting entity meeting the legal obligation to deposit and disclose documents.

DataCentrum is obliged to make every document available in the form submitted by the accounting entity not later than within five working days from the date of delivery to the Register.

The documents deposited in the public part of the Register are made available without any fee. Documents from the non-public part of the Register are made available in electronic form or in paper form; no fee is payable for the electronic form.

Documents disclosed in the Register of Financial Statements may only be deleted in exceptional cases. The Ministry of Finance of the Slovak Republic makes decisions on the deletion. If the entity submits incorrect statements, they may not be deleted; the entity may only additionally submit the correct data which will then be published above the original data [12].

In order to support the transparency principle, the Act on Accounting imposes the obligation on certain kinds of accounting entities to also publish on their websites the information that they have deposited their individual financial statements in the Register. These entities are obliged to publish on their websites the complete individual financial statements within the same extent and the same period as they are deposited in the Register for a minimum of one year.

Financial Aspects of the Register of Financial Statements Creation. The creation of the Register had no effect on the national budget of the Slovak Republic, as the Ministry of Finance of the Slovak Republic planned to use the previously existing electronic registry of the tax administration for the collection of data.

Before the Register of Financial Statements was introduced, the accounting entity was obliged to allocate part of its funds for the preparation and publication of the financial statements. Those costs were included under the administrative costs, whereby, in the case of small enterprises, these costs might represent a disproportionate burden.

The fee for the publication of financial statements and audit reports amounted to EUR 99.50. The deposition of the financial statements and audit report in the Register of Financial Statements was free of charge when submitted electronically. Accordingly, entities saved costs for the publication in the Journal of Commerce.

The fees paid by enterprises, cooperatives and state-owned companies from 2004 to 2014 for the publication of financial statements in the Journal of Commerce are calculated in Figure 1 based on the number of business entities registered with the Statistical Office of the Slovak Republic. On the basis of the calculation, it may be stated that entities paid EUR 99.50 for the publication of financial statements; the more entities registered we have, the higher the income of the national budget is. Since the Register of Financial Statements was introduced, entities do not pay the above fee if they deposit their financial statements electronically. This entailed a saving of administrative costs for the entities.

Table 1 shows the development of the number of business entities. With regard to such enterprises as joint-stock companies, a slight increase in the number of entities may be observed. A decline was recorded only in the case of entrepreneurs doing business on the basis of a trade licence.

The total number of entrepreneurs in Slovakia exhibits an upward trend, and it increased by 6,677 business entities compared with 2013. The structure of business entities in 2014 is shown in Figure 2. As is evident from the diagram, the introduction of the Register of Financial Statements did not have any negative effects on entrepreneurs, in particular, on limited liability companies.

The investment costs on the public administration for the creation of the Register of Financial Statements also represented a saving on the budgetary costs of the public administration due to the electronisation of administrative processes and gradual elimination of paper communication from administrative life.

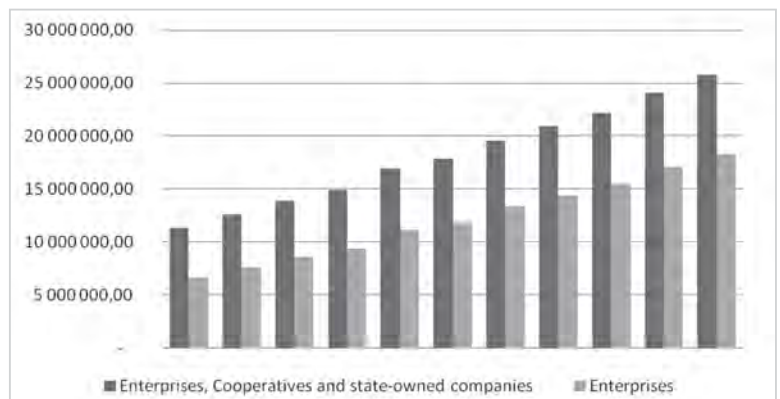


Fig. 1: Development of fees for publication of financial statements from 2004 to 2014

Source: Statistical Office of the Slovak Republic, internal processing

Tab. 1: Economic entities based on legal form

Year	2012	2013	2014
Joint-stock companies	5,656	5,803	5,875
Limited liability companies	146,423	163,885	176,963
Cooperatives	1,560	1,553	1,556
Foreign persons	3,432	3,585	3,641
Natural persons – entrepreneurs registered in the Business Register	1,598	2,252	3,081
Sole traders	367,506	353,386	342,369
Freelance occupations	19,919	21,007	23,701
Self-employed farmers	7,550	7,596	7,785
Total number of entrepreneurs in Slovakia	557,082	562,695	569,372

Source: Statistical Office of the Slovak Republic, internal processing

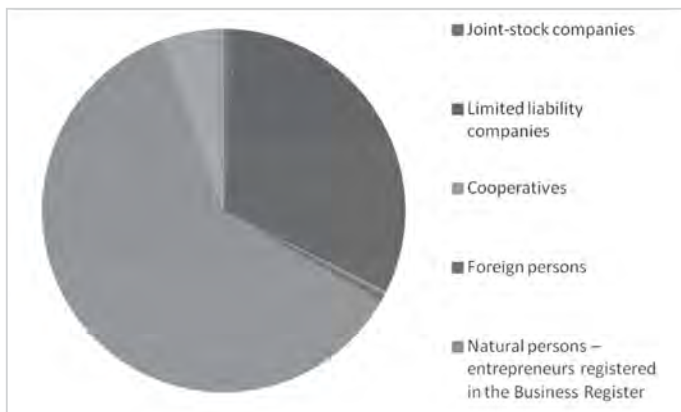


Fig. 2: Structure of business entities in Slovakia in 2014

Source: Statistical Office of the Slovak Republic, internal processing

The total investment costs of the introduction of the above system amounted to EUR 546,000 in 2013. As the Register was introduced and the financial statements published, the budget income from the publication of financial statements decreased each year.

By creating the Register, the Ministry of Finance introduced the electronic submission of financial statements, hence, the forms used for submitting financial statements were prescribed. The prescribed form for financial statements standardises the information published in the balance sheet, profit and loss account and, in particular, in the notes to the financial statements. Specifically, the last part, the notes to the financial statements, provides additional information on the entity's net profit/net loss.

The financial statements published in the public part of the Register are available to both experts and the general public. Thereby, investors and competitors have an opportunity to monitor the entity in which they are interested. By means of financial analysis, they can readily determine the necessary values and economic development of the entity. Within the financial analysis

they are, for instance, able to determine the liquidity, profitability, activity, indebtedness, or calculate the bankruptcy prediction models or creditworthiness models in the company. The above calculations provide answers to questions related to the entity's financial health, profitability or indebtedness. With the growing number of financial statements published, to monitor the entity will be easier; on the basis of calculations of the financial analyses, it will be easier to determine the entity's past performance and, on the other hand, the future development of the entity can be modelled by the way of financial analysis in the short term with regard to common operation of the entity but also with regard to strategic planning for the entity's future.

The creation of the Register of Financial Statements made it easier for competitors, investors and experts to gain information on entities, which might also have a negative effect on business entities.

5. Conclusions. The Register of Financial Statements was created in order to reduce the administrative burden on entrepreneurs.

The creation of the Register of Financial Statements increased the electronic submission of financial administration and reduced the administrative demands on entrepreneurs.

Hypothesis 1, regarding the reduction of the financial burden on business entities by the introduction of the Register of Financial Statements, was only partially confirmed.

The administrative fee for the publication of financial statements in the Register of Financial Statements is abolished if the statements are submitted in electronic form. By introducing the Register, these fees were eliminated for entrepreneurs.

The costs for publication in the Journal of Commerce were eliminated.

Hypothesis 2, regarding the introduction of the Register and increase in the transparency of registration of financial statements of entities, was confirmed.

The forms used to publish financial statements have been standardised and, by creating the Register of Financial Statements, which is available to the public, pressure is exerted on entities to publish correct and transparent data.

The creation of the Register of Financial Statements may also introduce negative effects, such as the public availability of data from the financial statements of entities which may be abused by competitors or potential investors. Information on the owners of the company may be acquired from the data in the financial statements published in an accessible place, which creates opportunities for the possible purchase of a share in the company.

Detailed information on the company's profit or loss presents another negative effect; on the basis of the available information published in the financial statements and from detailed financial analysis, the weak points of the company can be identified and used to the benefit of competitors, e.g. by winning over the business partners of the analysed company, for acquiring staff members, new outlets, which may subsequently lead to the termination of the analysed company, thereby achieving a better position on the market.

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