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Capital maintenance disclosure in Hungary and Slovakia after Directive 2013/34/EU implementation

Abstract

Capital maintenance concepts are relevant aspects of profit determination and subsequent dividend distribution with significant impact on the sustainable development of entities. The assessment of capital maintenance is based on the information disclosed in financial statements which are compiled in accordance with international or national legislation. The aim of this paper is to identify similarities and differences in capital maintenance disclosure in financial statements with emphasis on equity after Directive 2013/34/EU implementation in Hungary and Slovakia. Due to the wider extent of information required to be disclosed by large entities, growth, retention and erosion of capital can be assessed more precisely than in small or micro entities.

Keywords: capital maintenance, financial statements, equity, IFRS (International Financial Reporting Standards)

INTRODUCTION

Capital maintenance concepts are relevant aspects of profit determination and subsequent dividend distribution with significant impact on the sustainable development of entities. The assessment of capital maintenance is based on the information disclosed in financial statements, which are compiled in accordance with international or national legislation.

The aim of the paper is to compare capital maintenance disclosure after implementation of Directive 2013/34/EU in Hungary and Slovakia. The focus is on the statement of financial position from reported financial statements with emphasis on equity and its components. This paper represents secondary research based on analysis of national and international legislation, literature and other publications in the field of capital maintenance and its reporting. The starting point of research are definitions of key concepts of capital maintenance according to IASB Conceptual framework and the Directive 2013/34/EU implementation, which brought major changes into national member state accounting legislation. By the method of comparison, there were identified differences and similarities in financial statement components with a focus on equity presentation according to IFRS, Act C of

2000 on Accounting, as in effect and Act No. 431/2002 on Accounting, as in effect. The summary of main findings about financial and physical capital maintenance reporting is presented in the Conclusion.

1. CAPITAL MAINTENANCE IN THE EUROPEAN REGULATION

Capital maintenance has not been a popular topic in the last two decades of scientific research. The focus of managers and owners is on the performance of an entity, mostly measured by profit after tax or by distributed dividends. However, concepts relating to capital maintenance are significant because they reflect the economic reality of a business environment in which the entity performs its business activity (Jianu et al., 2017). Capital maintenance is also a key concept for sustainable development on a long-term horizon (Brätland, 2008). If an entity distributes profit to an extent that the resources left in the entity do not cover the restoration of fixed assets and input purchases, it can lead to inability to maintain capital or productive capacity in the short term and causes bankruptcy in the long term. (Jianu et al., 2011; Pakšiová, 2017)

Capital maintenance is observed from two points of view: financial and physical. These are defined in the Conceptual Framework for Financial Reporting issued by the International Accounting Standards Board (IASB). Under the financial capital maintenance concept, the profit is recognized when "the net assets at the end of the period exceeds the financial amount of net assets at the beginning of the period". (IASB, 2010, 4.59a) There is a need to exclude contributions or distributions from owners during the investigated period. Units of constant purchasing power and nominal monetary units are also suitable for financial capital maintenance measurement. Under the physical capital maintenance concept "profit is earned only if the physical productive capacity (or operating capability) of the entity at the end of the period exceeds the physical productive capacity at the beginning of the period, after excluding any distributions to, and contributions from, owners during the period". (IASB, 2010, 4.59b)

The main difference between these concepts is how to deal with price changes of assets and liabilities. Under the financial concept profit is indicated by the increase of nominal monetary capital over the period. A more fair view is provided by financial capital maintenance measured in constant purchasing power units. In the case of physical capital maintenance, current cost measurement is applied, and associated price changes are treated not as profit or loss but as capital maintenance adjustments. Thus, these capital maintenance adjustments cannot be distributed as dividends resulting in a positive impact on the financial capital maintenance or productive capability. Nowadays, fast technological development requires more attention to the increase of economic effectiveness by maintaining the latest equipment and other technical achievements.

For capital maintenance assessment the structure and the extent of information disclosed in financial statements is crucial. Capital maintenance is a key topic not only for entities reporting under International Financial Reporting Standards (IFRS), but also for small and medium sized entities which fall under particular national legislation. In the European Union significant convergence efforts exist for the harmonization of information reported in financial statements. Harmonization of information reported in financial statements is progressed through step by step convergence of accounting and reporting legislation at the international and national level.

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 (hereinafter the "Directive 2013/34/EU") represents a milestone in accounting legislation which brought lots of major changes into investigated national legislations. Directive 2013/34/EU had to be implemented in member state national legislation by 20 July 2015. Act C of 2000 on Accounting in Hungary, as in effect and Act No. 431/2002 on Accounting in Slovakia, as in effect were affected. The aim of the directive was to decrease administrative burden on smaller entities and the "think small first" principle was applied in the regulation making process. In this paper we abstract the analysis of audit regulation and consolidated groups and their financial statements regulation which are also significant parts of the examined directive. The first chapter of Directive 2013/34/EU deals with the scope, definitions and categories of entities. According to the directive, entities are divided into four categories but only 3 categories were implemented into Hungarian and Slovak regulation as shown in Table 1.

Table 1 Criteria for categorization into size classes according to Directive 2013/34/EU, Hungarian and Slovakian Act on Accounting

Categories of entities	**Directive 2013/34/EU**	**Act C of 2000 on Accounting, as in effect**	**Act No. 431/2002 on Accounting, as in effect**
Micro	Not exceeds a) balance sheet total: 350 000 €; b) net turnover: 700 000 €; c) average number of employees during the financial year: 10	Not exceeds a) balance sheet total: 100 million HUF (312 500 €); b) net turnover: 200 million HUF (625 000 €); c) average number of employees during the financial year: 10	Not exceeds a) balance sheet total: 350 000 €; b) net turnover: 700 000 €; c) average number of employees during the financial year: 10

Small	Not exceeds a) balance sheet total: 4 000 000 €; b) net turnover: 8 000 000 €; c) average number of employees during the financial year: 50.	Not exceeds a) balance sheet total: 1 200 million HUF (3 750 000€); b) net turnover: 2 400 million HUF (7 500 000 €); c) average number of employees during the financial year: 50. (simplified annual report)	Not exceeds a) balance sheet total: 4 000 000 €; b) net turnover: 8 000 000 €; c) average number of employees during the financial year: 50.
Medium sized	Not exceeds a) balance sheet total: 20 000 000 €; b) net turnover: 40 000 000 €; c) average number of employees during the financial year: 250	not defined	not defined
Large	Exceeds a) balance sheet total: 20 000 000 €; b) net turnover: 40 000 000 €; c) average number of employees during the financial year: 250.	Exceeds a) balance sheet total: 1 200 million HUF (3 750 000€); b) net turnover: 2 400 million HUF (7 500 000 €); c) average number of employees during the financial year: 50. (annual report)	Exceeds a) balance sheet total 4 000 000 €; b) net turnover: 8 000 000 €; c) average number of employees during the financial year: 50.

Source: Author's processing based on Directive 2013/34/EU, Act C of 2000 on Accounting, as in effect and Act No. 431/2002 on Accounting, as in effect

An entity belongs to one of the categories if on the reported date of the financial statements it meets two of three criteria in two immediately consecutive accounting periods. The extent of information reporting required by an entity is based on the size of the entity as determined by Table 1. Large entities & public-interest entities require the highest disclosure of financial & non-financial information.

As a result of the entity size categorization, there are differences in the extent of information provided in financial statements between micro, small and large entities. Our attention will be devoted to the differences in financial statement disclosure requirements and structure with emphasis on equity; one of the main indicators of capital maintenance.

2. COMPARISON OF THE HUNGARIAN AND SLOVAKIAN REGULATION OF FINANCIAL STATEMENT

Due to the similar historical background and harmonization of accounting and reporting regulation the structure and content of financial statements are similar according to IFRS and the accounting legislation in Hungary and Slovakia. The structure of financial statements for large and public interest entities according to these three types of regulation is shown in Table 2.

Table 2 Comparison of components of financial statements for large and public-interest entities according to Act on accounting and IFRS

Components of financial statements according to IFRS (IAS 1 article 10)	**Act C of 2000 on Accounting, as in effect** (article 19)	**Act No. 431/2002 on Accounting, as in effect** (article 17)
Statement of financial position as at the end of the period	The balance sheet shows assets in descending order of liquidity and resources in descending order of maturity for current and previous financial year of each item.	The balance sheet shows information on the assets and liabilities of the accounting entity and the difference between them, to a date to which the financial statements are prepared and to the date to which the financial statements are prepared for the immediately preceding accounting period.
Statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements		
Statement of profit or loss and other comprehensive income for the period	The profit and loss statement, contains the main factors influencing the origin and modification of the profit or loss, and the development of components of the after-tax profit for current and previous financial year.	The profit and loss statement present expenses, revenues and profit or loss for the accounting period and for the immediately preceding accounting period.
Notes, comprising significant accounting policies and other explanatory information (comparative information in respect of the preceding period)	The notes on the accounts includes all quantified data and explanatory information in addition to those contained in the balance sheet and in the profit and loss account and also information relating to any unique or special activities as prescribed by separated legislation (e. g. regulation about banks, insurance and public sector entities)	The notes contain information explaining and supplementing the information contained in the balance sheet and the profit or loss statement and/or other explanatory and supplementary statements and information. The notes include overview of changes in equity and overview of cash flow for the period.
Statement of changes in equity for the period		
Statement of cash flows for the period		

Source: Author's processing based on IFRS, Act C of 2000 on Accounting, as in effect and Act No. 431/2002 on Accounting, as in effect

The decrease in administrative burden for smaller entities can be identified in Hungarian legislation, according to which large entities are required to disclose financial statements including balance sheet, profit or loss statement and notes. Besides financial statements there is a requirement for preparing a business report for large and public-interest entities. Small entities are obliged to prepare financial statements in a simplified format and the notes contain less detailed information than large entities. On the other hand, financial statements of large and small entities have corresponding content and structure. Therefore, the administrative burden reduction for small entities is questioned, because the requirements for accounting procedures are not reduced. Micro entities disclose only these statements: balance sheet and profit and loss statement. In the Slovak Republic entities in every size category are obliged to prepare all three financial statements, but requirements for the extent of information decreases in direct proportion with the entity`s size. Administrative burden is theoretically decreased for small and micro entities by reducing line items required in statements and simplifying reporting requirements although in practice, the administrative burden generally does not decrease. When the entity fulfils the criteria of the upper category, it has to deal not only with more wide disclosure requirements, but also with more measurement techniques and accounting procedures. For example, the wider disclosure requirements increase the obligation of information disclosure in the notes. An additional measurement technique requires fair value be applied to a wider extent in large entities. Moreover, the categorization and possible of differences in the implementation of Directive 2013/34/EU decreases the comparability of financial statements in general. Financial statements of large entities can be considered comparable, but the overwhelming majority of entities should be classified as medium, small and micro (Gláserová et al., 2017).

According to accounting legislation in Hungary and Slovakia the financial statements have to be prepared in line with general accounting principles. With regard to administrative burden, the principle of cost-benefit shall be applied to ensure that the cost of information acquisition is in proportion with the usefulness of information disclosed in financial statements.(Act C of 2000 on Accounting, section 16, par. 5; Act No. 431/2002 on Accounting, as in effect, section 17 par. 9) The principle of cost-benefit cannot be recognized in the financial statement requirements for large and small entities in practice because both entity financial statements are based on the same accounting procedures. The reporting of relevant information about an entity should be assessed in terms of the significance of the information and the expense incurred for obtaining it in relation to benefits from the disclosure (Tumpach–Baštincová, 2014). Comparison of financial statement content for small and micro entities is shown in Table 3.

The administrative burden is the minimum for subjects, which are not within the scope of accounting legislation in Hungary such as entities under Act CXLVII of 2012 on the Fixed-Rate Tax of Low Tax-Bracket Enterprises and on Small Business Tax, as in effect and private entrepreneurs. Private entrepreneurs keep

records in simple-entry booking or keep records only about cash income under Act CXVII of 1995 on Personal Income Tax, as in effect (Ambrus–Borbély, 2015). In Slovakia the accounting legislation has a few paragraphs dealing with private entrepreneurs, but they are mostly regulated by income tax legislation according to Act No. 595/2003 Income Tax Act, as in effect. In both countries, there is a strong connection between accounting and tax legislation from which the most significant areas are income tax and value added tax.

Significant differences between two national legislations regulating financial statements are found in the criteria for compiling, content, disclosure of notes and business report.

According to the Directive 2013/34/EU implementation in Hungarian legislation new paragraphs were introduced regulating information disclosed in the notes of large entities, which are the following:

- amount and nature of revenues, costs and expenses exceeding the amount or occurrence stated in accounting policy,
- proposal of after-tax profit use and distribution,
- explanatory information to balance sheet and profit and loss statement items should be presented in the order as these items are presented in particular statement,
- extent of information provided about consolidated group and its members have increased,
- changes in equity and their components,
- number of employees, wages and payroll contributions presented for each group of employees,
- the number of shares and their nominal value, types of share and some relating information,
- other material revenues and expenses quantified impact on corporate tax,
- information about financial instruments and inventory impairment and its changes.

Table 3 Comparison of financial statement component for small and micro entities according to Hungarian and Slovak legislation

Type of entity	Act C of 2000 on Accounting, as in effect	Act No. 431/2002 on Accounting, as in effect
Small	the statements, balance sheet and profit and loss statement, provide information aggregated and less detailed the notes contain less information	the statements, balance sheet and profit and loss statement, are the same as for large entities, but they do not have obligation to disclose the same extent of information. For example, information about receivables and payables to related parties are not compulsory the notes are simplified and not required to provide the overview of changes in equity and overview of cash flow
Micro	the statements, balance sheet and profit and loss statement, contains less items and simplified regulation the notes are not prepared	the statements, balance sheet and profit and loss statement, contains less items the notes are more simplified than in the case of small entities

Source: Author's processing based on Act C of 2000 on Accounting, as in effect and Act No. 431/2002 on Accounting, as in effect

The notes in Hungary are reported in the following structure (Siklósi–Veress, 2018):

1. Basic information about the entity
2. Additional information to balance sheet including off-balance sheet items, overview of changes in equity and cash-flow statement
3. Additional information to profit and loss statement
4. Other information.

The content of the notes in Slovakia is included in lower level regulations and not in Act C of 2000 on Accounting, as in effect, as in Hungary. The lower level regulations are Measures of the Ministry of Finance of the Slovak Republic that deals with the accounting and the compilation of financial statements for each category of entities. Before implementation of Directive 2013/34/EU there was only one measure dealing with financial statements in double-entry booking until 2013, when the measure for micro entities was introduced and in the subsequent year measures for small and large entities were introduced. The Measure of the Ministry of Finance of Slovak Republic for large entities requires information be presented in the notes in the following structure:

5. Basic information
6. Information about accounting principles and methods
7. Information that explains and complements the balance sheet items
8. Information that explains and complements the profit and loss statement items

9. Information about off-balance sheet assets and liabilities
10. Events after the date on which financial statements are compiled
11. Other information
12. Overview of changes in equity
13. Overview of cash flow. (Measure of the MFSR No. MF/23377/2014-74)

According to both national regulations the notes for small entities are simplified and they do not include overview of changes in equity and overview of cash-flow. The notes for small entities in Slovakia contains 7 chapters versus 9 for large entities. For small entities, the last two chapters are excluded. (Measure of the MFSR No. MF/23378/2014-74) The main difference between Slovakian and Hungarian legislation can be identified in the case of micro entities which in Hungary are not required to prepare the notes. The micro entities' notes consist of the following three chapters:

14. Basic information
15. Information about accounting principles and methods
16. Information that explains and complements the balance sheet and the profit and loss statement items. (Measure of the MFSR No. MF/15464/2013-74)

In addition to the information extracted from the entity's basic financial statements, the information in the business report also assists investors and other users in decision-making (Lovciová, 2017). The business report is a compulsory part of financial statements for large and public-interest entities in Hungary. The business report is not disclosed together with the financial statements because the regulation considers it an individual report. According to the legislation, the business report must be available to all interested parties at the address of the entity and must be provided to all interested parties to make whole or partial copies. (Act C of 2000 on Accounting, as in effect, section 154. par. 12) In the Slovak republic entities required to prepare a business report have to deposit it into the Register of financial statements not later than one year from the end of a particular accounting period. (Act 431/2002 on Accounting, as in effect, section 23a, par. 8) Business reports are obliged to compile entities which are subject to audit with the exception of branches of foreign banks or insurance entities and similar entities according to Act 431/2002 on Accounting, as in effect article 17a paragraph 1 b. Audit of financial statements is compulsory based on size criteria or by listed conditions. The size criteria are examined during two accounting periods and at least two of the following conditions have to be fulfilled:

- total assets exceed 1 000 000 €;
- net turnover exceeds 2 000 000 €;
- average calculated number of employees exceeds 30 in the accounting period.

Total assets are determined from the balance sheet in gross amounts. (Act 431/2002 on Accounting, as in effect, section 19, par. 1) Net turnover includes revenue from the sales of goods, merchandise and services after deducting

discounts. Net turnover includes other revenues after deducting discounts for an accounting unit whose business activities include revenues other than those resulting from the sales of goods, merchandise and services. (Act 431/2002 on Accounting, as in effect, section 2, par. 15) Listed conditions of compulsory audit are the following:

- entity whose securities have been admitted to trading on regulated market,
- entity, that is the subject to this requirement under a separate regulation (e. g. regulation about banks, foundations),
- entity that should prepare its financial statements in accordance with article 17a (according to which entities prepare financial statements based on IFRS, e. g. banks, insurance entities and others). (Act 431/2002 on Accounting, as in effect, section 19, par. 1)

According to size criteria, in Slovakia obligation of business report preparation is not only for large entities as in Hungary but also for several small entities. In the context of business report preparation, the administrative burden for small entities is lower in Hungary than in Slovakia. The more complex information about capital maintenance is provided in the balance sheet which is supplemented by information from the overview of changes in equity. The main indicator of capital maintenance is equity and the components which contain information not only about share capital but reflect different reserves, profit or loss for the period and accumulated profit or loss from previous periods. Since small and micro entities are not obliged to disclose the overview of changes in equity, examination of capital maintenance cannot be done. Due to this fact, in the next part we will pay attention to equity and its components.

3. COMPARISON OF THE HUNGARIAN AND SLOVAKIAN PRESENTATION OF EQUITY AS A KEY INDICATOR OF CAPITAL MAINTENANCE

Equity is the key indicator in the examination of capital maintenance because under the financial concept of capital changes in equity indicate the growth, retention or erosion of capital. On the other hand, there is a link in components of equity to the physical concept of capital when revaluation surplus is directly recognized in equity and not in profit and loss statements. These are the main reasons why equity is a significant indicator of capital maintenance.

The equity presentation under IFRS is within the scope of standard IAS 1 Presentation of financial statements (hereinafter IAS 1). IAS 1 defines requirements for minimum line items in the statement of financial position, among which two items are related to equity:

- non-controlling interests presented within equity and
- issued capital and reserves attributable to owners of the parent. (IAS 1, 1.54)

Further sub-classification can be made in the statement of financial position or in the notes about classes of equity and reserves. (IAS 1, 1.78) The following detailed information has to be disclosed in the statement of financial position, the statement of changes in equity or in the notes for each class of share capital:

- "the number of shares authorized,
- the number of shares issued and fully paid, and issued but not fully paid,
- par value (face value) per share, or that the shares have no par value,
- a reconciliation of the number of shares outstanding at the beginning and at the end of the period,
- the rights, preferences and restrictions attaching to that class including restrictions on the distribution of dividends and the repayment of capital,
- shares in the entity held by the entity or by its subsidiaries or associates, and
- shares reserved for issue under options and contracts for the sale of shares, including terms and amounts."

There is a requirement for description of the purpose and nature of each reserve within equity, too. (IAS 1, 1.79)

The statement of changes in equity requires some additional information:

- "total comprehensive income for the period, showing separately the total amounts attributable to owners of the parent and to non-controlling interests,
- for each component of equity, the effects of retrospective application or retrospective restatement recognized in accordance with IAS 8 Changes in Accounting Policies; and
- for each component of equity, a reconciliation between the carrying amount at the beginning and the end of the period, separately disclosing changes resulting from:
  - profit or loss;
  - other comprehensive income; and
  - transactions with owners in their capacity as owners, showing separately contributions by and distributions to owners and changes in ownership interests in subsidiaries that do not result in a loss of control." (IAS 1, 1.106)

In contrast, the national legislation in Hungary and Slovakia exactly defines the extent of information disclosed in each part of financial statements. Due to the Directive 2013/34/EU implementation, the extent of provided information about equity may vary depending on the category to which the entity refers. As mentioned earlier, only large entities are obliged to prepare statements of changes in equity. The differences between presentation of equity for large entities in Hungary and Slovakia are shown in Table 4. However, small and large entities in Slovakia prepare the balance sheet and profit and loss statement in the same structure and with the same number of items. In Hungarian financial statements for small entities the line items marked by Arabic numbers are aggregated and in the case of equity the aggregation is only concerned about the item Revaluation reserve.

In the context of capital maintenance, the focus is on the growth of total equity excluding contributions and distributions to owners. Under the financial concept of capital maintenance, the key indicators are not just shareholders' equity line but also profit and loss of the accounting period after tax and accumulated profit and loss of the previous years. If financial capital maintenance is assessed in constant purchasing power, the differences arising from revising the nominal monetary unit to constant purchasing power are also disclosed in equity. Physical capital maintenance is more focused on productive capability, thus the equity component such as revaluation differences and value adjustments are critical as well in the assessment of growth, retention or erosion of capital.

Since capital maintenance under the physical capital concept is in the focus of our examination, in which we are mostly interested producing entities, the revaluation differences relating to financial instruments are not within the objective of our paper. Revaluation differences and value adjustments related to non-current assets are primarily regulated in standards: IAS 38 Intangible assets (hereinafter IAS 38), IAS 16 Property, plant and Equipment (hereinafter IAS 16), IAS 40 Investment Property (hereinafter IAS 40) and IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (hereinafter IFRS 5).

According to IAS 38 and IAS 16, initial recognition of an asset is in cost. For subsequent measurement to the balance sheet date, the entity shall choose from the cost model or the revaluation model. The cost model measures intangible assets and property, plant and equipment at cost less accumulated depreciation and accumulated impairment losses. The revaluation model measures assets in revalued amount, which is fair value less any accumulated depreciation and impairment. Significant impact to components of financial statements can apply the revaluation model, when the fair value of asset is higher or lower than the carrying amount. In case that the fair value is higher than the carrying amount, the amount exceeding carrying amount is recognized in equity through other comprehensive income statement in line revaluation surplus without impact on profit or loss. If in the previous accounting period the decrease in asset value was recognized as an expense in profit and loss, increase in fair value is recognized as a decrease of expenses in profit and loss statement and the remaining part is recognized in other comprehensive income indirectly presented in equity. In case fair value is less than carrying amount, the difference is recognized through expenses in the profit and loss statement. If in the previous accounting periods increase of value was recognized in revaluation surplus in equity, then the carrying amount will be decreased initially through equity in the amount of revaluation surplus, and the impact on the profit and loss statement will be in the remaining amount of difference between carrying amount and fair value. (IAS 38, IAS 16)

Table 4 Comparison of equity presentation in balance sheet according to Hungarian and Slovak legislation

Act C of 2000 on Accounting, as in effect		**Measure of the Ministry of Finance of the Slovak Republic No. MF/23377/2014-74**	
D.	Shareholders' equity	A	Equity line
I.	Issued capital	A.I.1.	Share capital
	Including: ownership shares repurchased at face value	2.	Change in share capital
II.	Issued capital unpaid (-)	3.	Unpaid share capital
III.	Capital reserve	A.II.	Share premium
IV.	Accumulated profit reserve	A.III.	Other capital funds
V.	Tied-up reserve	A.IV.	Legal reserve funds
VI.	Revaluation reserve	A.IV.1.	Legal reserve fund and non-distributable fund
1.	Reserve from value adjustments	2.	Reserve fund for own shares and own ownership interests
2.	Revaluation reserve from the fair value accounting	A.V.	Other funds created from profit
VII.	Net profit/loss for the accounting period after tax	A.V.1.	Statutory funds
		2.	Other funds
		A.VI.	Differences from revaluation – total
		A.VI.1.	Differences from revaluation of assets and liabilities
		2.	Investments revaluation reserves
		3.	Differences from revaluation in the event of mergers, amalgamation into a separate accounting or demerger
		A.VII.	Net profit/loss of previous years line
		A.VII.1.	Retained earnings from previous years
		2.	Accumulated losses from previous years
		A. VIII.	Net profit/loss for the accounting period after tax

Source: Author's processing based on Act C of 2000 on Accounting, as in effect and Measure of the Ministry of Finance of the Slovak Republic No. MF/23377/2014-74

Specific groups of assets are obtained as investments which are the subject of IAS 40. The standard defines two alternatives to the subsequent measurement on the balance sheet day: the revaluation model and the cost model. The chosen measurement model must be applied to all property classified as investment property. Measurement by cost model entity also has the obligation of fair value deter-

mination, because the entity is required to disclose the fair value in the notes. Applying the revaluation model, the change in fair value through gains or losses has a direct impact on the profit and loss statement. This model does not require depreciation of property (IAS 40).

The last group of non-current assets is defined in standard IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. An asset can be classified as asset held for sale, if it meets the criteria defined in the standard, while depreciation is interrupted and presentation on a separate line of the balance sheet is needed. Initial measurement is the lower of fair value less costs to sell or carrying amount. Costs to sell are "the incremental costs directly attributable to the disposal of an asset". (IFRS 5, Appendix A) In case the asset does not meet the criteria for classification as held for sale or discontinued operations the asset shall be reclassified as a non-current asset and measured at the lower of:

- carrying amount before the asset was classified as held for sale adjusted for any revaluation, depreciation and amortization that would have been recognized if the asset had not been classified as held for sale, or
- its recoverable amount at the date of the decision not to sell.

The recoverable amount is the higher of fair value less costs to sell or value in use. "Value in use is the present value of estimated future cash flows expected from the continuing use of the asset and from its disposal at the end of its useful life." (IFRS 5, Appendix A)

In asset disclosures, examination of impairment and its presentation in the financial statements has a significant role. Standard IAS 36 Impairment of assets prescribes applied procedures, when the recoverable amount is lower than the carrying amount. IAS 36 does not have impairment testing for assets under IFRS 5 and IAS 40 measured at fair value within the scope. "The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal or its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit." (IAS 36, 6.) Impairment losses do not have to be recognized, if at least one measurement basis, value in use or recoverable amount, is higher than the carrying amount of the asset (Bednárová–Šlosárová, 2015).

Recent trends force the application of fair value for more and more balance sheet items, which is in line with the requirement of current value measurement under the physical capital maintenance concept (Jianu et al., 2011). IFRS standard setters and academic literature consider fair value measurement and reporting a more relevant and transparent way to provide information to financial statement users. Use of fair value reporting should increase value-relevance and reflect the actual value of enterprises in public information leading to more efficient capital formation and resource allocation (Palea, 2014).

In line with continuing existence of the entity and the retention of physical capital, increase in asset fair value is more appropriately recognized as revalu-

ation surplus in equity than directly in the profit or loss statement. In this case, the carrying amount on the balance sheet increases, but unrealized profit is not directly recognized in the profit and loss statement. If unrealized profit is recognized, the risk of fictive profit distribution arises. As a result of unrealized profit, respectively fictive profit distribution causes erosion of an entity`s capital endangering the entity's ability to perform production and other business activities at full capacity (Pakšiová, 2014). Therefore, assets under IAS 38 and IAS 16 can be subsequently measured by the revaluation model through equity which is most appropriate for physical capital maintenance. If assets measured under IAS 40 and IFRS 5 are subsequently measured through the profit and loss statement, risks relating to profit distribution from unrealized profits and capital erosion arise.

Act C of 2000 on Accounting, as in effect, defines revaluation reserve in the balance sheet as the sum of reserve from value adjustments and revaluation reserve from the fair value accounting. The second one relates to financial instruments which are not the subject of this paper. Reserve from value adjustments is a tool for equity increase when fair value is higher than the carrying amount after impairment reversal for the following items: concessions, licenses and similar rights and assets, intellectual property, tangible assets (assets under construction, payment on account for construction) and investments in equity instruments. The difference between fair value and carrying amount is presented in the same amount among assets on lines "Adjusted values" for each category of assets and among equity on line "Reserve from value adjustments". Value adjustments are presented individually in the balance sheet, thus the presented value of a particular asset does not increase, the fair value must be tested every year and changes must be recognized in financial statements (Siklósi–Veress, 2018). According to this act, the fair value measurement is optional, and the opinion of an auditor is required to check the regularity of establishing and recognizing value adjustments. (Act C of 2000 on Accounting, as in effect, section 59, par. 2) Revaluation reserves represent a restriction in profit distribution because after profit distribution the amount of equity less tied-up reserves and the valuation reserve should not fall below the amount of subscribed capital (Act C of 2000 on Accounting, as in effect, section 39, par. 3).

According to Act No. 431/2002 on Accounting, as in effect, fair value revaluation of non-current assets to the balance sheet day is not allowed. Measurement at fair value and subsequent fair value revaluation is more widely applied in the category of financial instruments. The aggregated line item in the balance sheet "Differences from revaluation" is the sum of financial instrument revaluation, investment revaluation reserves accounted until the end of 2009 and differences from revaluation in the event of mergers, amalgamation into a separate accounting or demerger which are not in the scope of our paper.

4. CONCLUSIONS

The aim of this paper was to identify similarities and differences in capital maintenance disclosure in financial statements with emphasis on equity in two Central East European countries.

Entities, regardless of their size, should pay attention to capital maintenance and restrict profit distribution (especially the distribution of unrealized profit) to ensure continuing existence. Capital maintenance is examined from the perspective of financial and physical capital maintenance. In this paper, similar and different features of information disclosure in financial statements after Directive 2013/34/EU implementation in Hungarian and Slovak accounting legislation were investigated. The aim of the directive was to decrease administrative burden for smaller entities by simplified requirements related to information disclosure and measurement. Theoretically, the aim of the directive is met, and it can be concluded that the administrative burden for small and micro entities is lower in Hungary than in Slovakia. However, in practice the real effects of simplification can be questioned considering the administrative burden related to taxation.

Assessment of capital maintenance is based on capital reported in the balance sheet as equity. Equity components were compared according to IFRS and accounting legislation in Hungary and Slovakia. IFRS determinates the requirements for equity disclosure and it offers more alternatives for reporting such as statement of financial position, notes or statement of changes in equity. Despite this, according to national legislation the line items of equity and its components in financial statements are directly stated. Equity is reported in less line items in Hungary than Slovakia and a changes in equity overview is compulsory only for large entities in both countries. Based on analyses of equity reporting, we deduce that national legislations support the financial concept of capital maintenance in nominal monetary units. Under the financial concept capital is maintained, if the equity amount is higher at the end of the period than at the beginning. The link between equity and capital maintenance under the physical concept (focusing on production capacity) is revaluation surplus. Physical capital maintenance asks for current cost measurement based on fair value, which is not widely applied in examined countries. Fair value measurement and revaluation mostly relates to financial assets that are not in our focus. Measurement and revaluation in fair value through revaluation surplus of non-current assets is in line with IFRS, but not in Slovakia. In Slovakia fair value revaluation relates only to financial assets.

In Hungary there is a possibility to recognize fair value increase of non-current assets in equity, but it is a subject of an auditor´s opinion even if the financial statement is not the subject of an audit. In general, for the majority of entities in Hungary and Slovakia capital maintenance assessment is available under the financial concept of capital based on equity and its components. Large entities and entities preparing financial statements under IFRS disclose a wider extent of information and also have the obligation to provide statement of changes in equity which enables deeper analysis.

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ACTS OF LAW AND OTHER REGULATIONS

- Act No. 431/2002 on Accounting, as in effect
- 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 repeating council Directives 78/660/EEC and 83/449/EEC

• Hungary's Act C of 2000 on Accounting, as in effect
• IASB (2010) Conceptual Framework
• IASB (2018) International Financial Reporting Standards
• Measure of the Ministry of Finance of the Slovak Republic No. MF/15464/2013-74 defining details of the arrangement, marking, and content specification of items of an individual financial statement and extent of data determined for publication from an individual financial statement for entrepreneurs using double entry bookkeeping for micro accounting units.
• Measure of the Ministry of Finance of the Slovak Republic No. MF/23378/2014-74 defining details of the arrangement, marking, and content specification of items of an individual financial statement and extent of data determined for publication from an individual financial statement for entrepreneurs using double entry bookkeeping for small accounting units.
• Measure of the Ministry of Finance of the Slovak Republic No. MF/23377/2014-74 defining details of the arrangement, marking, and content specification of items of an individual financial statement and extent of data determined for publication from an individual financial statement for entrepreneurs using double entry bookkeeping for large accounting units and public interest entity.