

# Harmonization of Slovak Republic Accounting System in the Context of IAS 41

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# The aim of the presentation

- To describe the process of Slovak accounting legislation harmonization with international accounting practices
- To explain main disparities of both accounting systems
- To identify potential problems of IAS 41 application in terms of Slovak forest enterprises



# Slovakia and Forestry

- The Forest covers almost 40% of the country
- Total timber felling in 2014: 9.417 mil. m<sup>3</sup> (incidental timber felling 6.142 mil. m<sup>3</sup> )
- Slovakia has 9 national parks, 14 protected landscape areas and 1093 small-area protected territories (total 23,3% of the territory)





# Ownership backgrounds

Entities	Area of stand area (ha)	
	Ownership	Use
State-owned	814 576	1 185 971
Private	231 259	113 968
Shared ownership	469 130	416 966
Church	61 430	40 188
Agricultural cooperatives	2 379	4 946
Municipal	186 519	167 271
Unknown	164 017	
<b>Total</b>	<b>1 929 310</b>	<b>1 929 310</b>

- Fragmented private ownership of forests in Slovakia
- Less than 4% of subjects manage an area larger than 500 ha
- One dominant enterprise-State enterprise Forests of the Slovak Republic (approx. 45% of forest land)



# Harmonisation – main facts

- 1973 – creation of the International Accounting Standards Committee (IASC)
- 1975 to 2002 - the creation of uniform chart of accounts named International Accounting Standards (IAS)
- 2002 - Regulation (EC) no.1606 / 2002 of 19 July 2002 on the application of international accounting standards
- 2003 - Regulation (EC) No. 1725/2003 of 29 September 2003
- 2001 till now - International Financial Reporting Standards (IFRS)



# Harmonisation - Slovakia

- Act No. 431/2002 of the Coll. on accounting:
  - The introduction of true and fair view principles
  - The introduction of the financial year
  - The introduction of materiality concept for information in the financial statements
  - Assets, liabilities, revenues and costs or expenses are defined similarly to IAS
  - A new approach to intangible assets
  - An introducing the requirement for revaluation of certain asset groups on fair value
- 30 times revised to date - gradual approximation to IAS/IFRS



# Slovak Accounting Standards vs. IAS/IFRS – main differences

## SAS

- Legislation established accounting procedures and the content and form of financial statements
- 3 components of the financial statements
- Different reporting of income tax
- Focus on fair value measurements

## IAS/IFRS

- Not limited to a particular legal framework, they do not prescribe specific formats for financial statements
- 4 components of the financial statements
- Different reporting of income tax
- There is a growing emphasis on fair value, although not yet in such extent as in IFRS.



# IAS/IFRS and Forestry

- IAS 41, *Agriculture*, applies to:
  - Biological assets related to managed agricultural activity that are in the process of growing, degenerating, regenerating and/or procreating and which are expected to eventually result in agricultural produce
  - Agricultural produce at the point of harvest.
- IAS 2, *Inventories*, applies to the agricultural produce after the point of harvest
- IAS 16, *Property, Plant and Equipment*, IAS 17, *Leases*, or IAS 40, *Investment Properties*, apply to the land





## IAS 41, *Agriculture*

- The objective of this Standard - to prescribe the accounting treatment and disclosures related to agricultural activity
- Introducing a model of fair value to agricultural accounting:
  - The quoted price in an active market for the particular biological asset agricultural produce
  - Market-determined prices or values when an active market does not exist
  - The present value of expected net cash flows from the asset when market-determined prices or values may not be available for a biological asset in its present condition.



# IAS 41 and Slovak forestry

- The IAS/IFRS can be presumably applied by the state enterprise Forests of the Slovak Republic
- New request - the valuation of forest stands for accounting purposes
- Necessary to review the current approaches to measurement of items in the financial statements



# Applying of IAS/IFRS – the main problems

- Forest land owned by the state – reporting and measurement problems
- Determination of the procedure for forest stands valuation
- Reporting the value of forest land and forest stands in the protective forests and special purpose forests
- Forest land management risk
- IAS 41 demands a lot of extra work and requires additional costs
- Lack of standards knowledge, particularly IAS 41



## The example of solution – Table of forest stand value (in EUR per ha)

Age	Spruce	Abies	Oak	Beech
	Soil quality 28	Soil quality 26	Soil quality 24	Soil quality 26
3	3 471,25	3 586,23	5 091,90	4 089,95
10	3 964,02	4 073,52	5 688,69	4 593,66
20	4 057,10	4 193,97	5 852,95	4 746,97
30	4 117,32	4 254,20	5 940,55	4 818,14
40	4 177,55	4 319,90	6 028,15	4 889,32
50	4 237,78	4 385,61	6 121,23	4 960,50
60	4 303,48	4 451,31	6 214,31	5 037,15
70	4 369,18	4 517,01	6 564,72	5 113,80
80	10 709,42	9 192,80	11 979,66	9 433,71
90	14 985,52	13 819,31	17 022,28	14 197,10
100	18 829,08	18 035,19	21 988,25	17 849,03
110	22 256,54	21 752,82	26 581,91	20 663,26
120	25 377,38	25 087,20	31 120,82	22 513,87
130			35 353,13	23 493,92
140			39 541,62	23 663,65



# Conclusion

- The implementation of the standards incorporate a number problems
- Wider application among Slovak forest enterprises will be problematic
- It will improve the overall view of this type of accounting entities
- Tools for evaluation of forest stands are available, it is necessary to evaluate their fitness
- We will use the experiences with the implementation of IAS/IFRS in other countries



**Thank you for your attention !**