

# Bookkeeping in the Slovak Republic – Past and Present

## Summary

Bookkeeping is one of the most proven systems by means of which information related to individual companies – i.e. reporting enterprises – is recorded, processed and subsequently disclosed. Bookkeeping represents a relatively closed and internally structured information system that provides information expressed in monetary figures on a company's economic activities and its operating results, i.e. it provides information on a company's assets, equity liabilities, costs, revenues, income, expenses, and results of operations. In each period, whether in the past or at present, different activities of a reporting enterprise have been recorded. With time, due to the extension of activities, gradually not only the amount of information but also the quality requirements for the information provided have changed.

## Key words

Bookkeeping, Slovak Republic

## Development of bookkeeping

The development of bookkeeping is inseparable from other social developments. The need to maintain records - for example of regular contributions and assets of individual associations - influenced the developmental requirements of bookkeeping. The records maintained corresponded to the conditions of the respective period: from records in the form of notes to the present form of processing.

The beginning of corporate bookkeeping in Europe dates back to the 12<sup>th</sup> century. In this period bookkeeping was considered as an art that could be understood and learned by practical exercise.<sup>1</sup> Bookkeeping started to be taught in Italy along with sums and calligraphy.

In 1494, the first debate on double-entry bookkeeping by Luca Pacioli, a monk, titled *Summa de arithmetica, geometria, proportioni et proportionalita* (Collection of arithmetic, geometry, ratios and rules of proportion) was published. In the chapter *Tractatus IX Particularis de computis et scripturis* (Debate on accounts and papers) he founded the principles of the double-entry bookkeeping approach.<sup>2</sup> Pacioli in his work described in detail how business transactions are recorded in commercial books in order to always maintain the balance income = expense. The first bookkeeping theories were introduced in 1586 by the Italian monk Angelo Pietra.

The model of the form of bookkeeping on the territory of Czechoslovakia incorporated in com-

mercial laws until 1946 was based on the French trade directive by Jacques Savary: *Ordonance de commerce*. This influenced the formal aspects of bookkeeping in the companies of traders, money-changers, bankers, and so on.

Proper bookkeeping was based on a practical system of accounts influenced by the activities of the company. Certain accounts were common for several companies, other companies also had to create special accounts to record their activities, for example banks and insurance companies.

Reporting enterprises maintained accounting books to record their activities. These books were divided into general ledgers (journal, general ledger, sub-ledgers<sup>3</sup>) and auxiliary books (auxiliary ledger, tally sheets – registers).

*Journal* was maintained chronologically in two columns or in a synchronistical<sup>4</sup> form. It was maintained either jointly for cash and credit transactions or divided into the cash journal and purchase and sales journal. Large companies maintained several journals, e.g. bonus journal, compensation journal.

*Sub-ledgers* comprised the following personal accounts maintained in companies:

- personal accounts of dealers (agents),
- personal accounts of financial institutions – deposits, payroll, payments, transferred payments through financial institutions.

<sup>1</sup> Fuksa, J. – Raulich, H.: *Účtovaní v podnikách peňežních a pojišťovacích*. Praha : Československá grafická únie, a.s. 1937, s. 23.

<sup>2</sup> Soukupová, B. - Šlosárová, A. - Baštinová, A.: *Bookkeeping*. Bratislava : Iura edition, 2001, s. 30.

<sup>3</sup> sub-ledgers (pl) – credit ledgers or debtor's and creditor's books in Fuksa, J. – Raulich, H.: *Účtovaní v podnikách peňežních a pojišťovacích*. Praha : Československá grafická únie, a.s. 1937, s. 9. At present the term sub-ledger is used in technical literature (sing.).

<sup>4</sup> synchronistically – keeping accounting records in journal balance sheet book in the following accounts – asset accounts, p/l accounts (equity capital accounts) and current accounts

All entries from the journal were transferred to the *auxiliary ledger* on a monthly basis. Monthly totals were subsequently transferred to the *general ledger* (balance sheet ledger), which included all accounts of the insurance company.

At the end of the accounting period companies—reporting enterprises prepared Balance Sheet Accounts and Profit and Loss Accounts. A disadvantage of the Profit and Loss Account was that it included items which did not belong to this account under the principles of double-entry bookkeeping, which made this account non-transparent for those not involved in bookkeeping. Besides financial statements, companies were also required to publish Reports on operations.

The end of the 19<sup>th</sup> century saw the greatest development of bookkeeping in Czechoslovakia. The first double-entry account theory was developed with the first university textbook published in 1920 by J. Pazourek: Theory and practice of bookkeeping systems.

Until 1946 bookkeeping in Czechoslovakia was governed by the Commercial Code of 1875. The new era in the development of bookkeeping was marked by the adoption of *Act No. 116/1946 Coll. on a Unified System of Corporate Bookkeeping* – period of general ledger bookkeeping with balance sheet and p/l accounts comprised of: financial bookkeeping, operating bookkeeping, calculations, corporate statistics, and budgeting.<sup>5</sup> The government regulation stipulated uniform bookkeeping principles. The aim of this period was to unify bookkeeping nationwide, develop technical terminology, and introduce general requirements to maintain double-entry bookkeeping. So-called specialist charts of accounts were published for different fields, which only applied to certain companies and not to the national economy as a whole.

After 1953 economic accounts were introduced that were based on a one-ledger concept consisting of ledger and sub-ledger accounts. The system of economic accounts comprised accounting records, operational and technical records, and statistics. A separate chart of accounts was published for each industry. Consequently there were 34 charts of accounts with different account numbers, but often with the same economic content. Information provided by bookkeeping was fragmented.<sup>6</sup>

The uniform nature of basic bookkeeping that

provided basic information on the entire national economy was implemented after 1966. Accounting records were replaced by double-ledger bookkeeping: basic and interdepartmental. The first uniform chart of accounts was published, with p/l accounts being separated from balance sheet accounts.

In the mid-60s, due to the preparation of the economic reform, the changes also affected bookkeeping. A uniform system of economic information became effective from 1 January 1966 despite the fact that it wasn't incorporated into legislation until 1971 when *Act No. 21/1971 Coll. on a Uniform System of Socioeconomic Information* was adopted. The aim of the act was to ensure a uniform information flow from all organisations – from basic economic organisations to executive national economy management bodies. Information system of organisations included – bookkeeping, budgeting, calculations, statistics, operating accounts, separately organised accounts, passports, and registers.

In the field of bookkeeping, a prescriptive basis was ensured by the *Uniform Chart of Accounts issued by the Central Commission for Public Control and Statistics, in Bulletin No. 13-14/1966 and by Guideline on Chart of Accounts No. 38 000/66, together with Rules for Interdepartmental Bookkeeping of Economic Organisations Including Management of Bookkeeping and its Organisation* effective from 1 January 1967. Uniform organisation was supervised by the State Statistical Office. Information disclosed on the balance sheets of economic and other organisations was summarised in the summary financial statements for individual industries and geographical areas as at that date, and then aggregated for the entire national economy in the National Property Balance Sheet<sup>7</sup>:

National Property Balance Sheet	
▪ Economic means of gradual consumption	▪ Funds (national property)
▪ Economic means of one-off consumption	▪ Additions to/disposals of funds (of the national property)

Figure 1. National Property Balance Sheet structure

The Act on a Uniform System of Socioeconomic Information resulted in the adoption of *Regulation of the Government of the Czechoslovak Socialist Republic No. 153/1971 on In-*

<sup>5</sup> Soukupová, B. - Šlosárová, A. - Baštinčová, A.: Účtovníctvo. Bratislava : Iura edition, 2001, p. 32.

<sup>6</sup> Laučík, Z. - Klozar, J. - Králiček, V.: Účtovníctvo. Bratislava : SPN, 1990, p. 148.

<sup>7</sup> Bolze, K. – Kadlec, J.: Základy účetnictví. Praha : Státní pedagogické nakladatelství, 1968.

Kaupa, E. – Hadrava, J. – Mužík, K.: Účtovníctvo. Bratislava : Slovenské pedagogické nakladateľstvo, 1968.

**formation Systems for Organisations.** The regulation stipulated principles for the creation and use of information systems for organisations. It required that each organisation should maintain bookkeeping, statistics, and operating accounts.

*Bookkeeping* provided the most comprehensive system of economic information, divided into current bookkeeping and statements (balance sheet and income statement, in budget organisations balance sheet and budget compliance statement). *Statistics* collected information on a great number of uniform collective matters mostly using information from bookkeeping and operating accounts. The aim of *operating accounts* was to be aware of circumstances that could be used in the normal management of the company and its departments.

Financial and insurance institutions were not required to maintain budgeting and calculation as part of the uniform system of socioeconomic information.

One of the important implementing regulations of the Act on a Uniform System of Socioeconomic Information was also **Regulation of the Federal Ministry of Finance No. 154/1971 on Bookkeeping** which regulated bookkeeping in all socialist and other organisations.

Individual economic organisations recorded accounting entries in accordance with the Regulation on Bookkeeping based on the uniform chart of accounts and the related guidelines. The uniform chart of accounts made it impossible to reflect the differences arising from the specifics of various economic organisations, therefore separate charts of accounts were issued for certain organisations:

- chart of accounts for economic organisations,
- chart of accounts for budget organisations,
- chart of accounts for financial and insurance institutions,
- chart of accounts for social and other organisations.

The chart of accounts for economic organisations represented the unifying basis for other alternatives, while in all of them maximum uniformity in terms of the form and content of their structure was maintained. This enabled bookkeeping to emphasise different economic aspects of economic transactions monitored in different economic entities.

Chart of accounts represented a closed one-ledger system – economic transactions of both an external and internal nature were monitored and recorded in one ledger. Organisations had the opportunity to maintain interdepartmental book-

keeping (double-ledger organisation of bookkeeping) under special guidelines for interdepartmental bookkeeping<sup>8</sup>.

Bookkeeping after 1977 reflected the specifics of certain organisations, which, however, are based on common principles. Therefore four separate charts of accounts were issued for: economic organisations, budget organisations, banking and insurance institutions, social and other organisations. Adjustments made to the chart of accounts and guidelines to the chart of accounts for banking and insurance institutions reflected the changes in the new organisation of banks and financial institutions, their status, mutual relations and financial management. The change in the management of the economy also changed the status and role of bookkeeping. Only in modern history bookkeeping had been regulated by a special act for the first time<sup>9</sup>.

### Situation of bookkeeping in Slovakia at present

At present, bookkeeping in the Slovak Republic is regulated by the highest legal norm – and directed by the decrees of the Ministry of Finance of the Slovak Republic. **Act on Accounting No. 431/2002 Coll. as amended** has been amended twice since first adopted, with the last amendment taking force from 1 January 2006.

The decrees of the Ministry of Finance stipulate general chart of accounts and details of accounting procedures in the double-entry bookkeeping system for different types of entities, such as:

- entrepreneurs,
- budget organisations, state funds, subsidised organisations, municipalities, higher territorial units,
- legal entities whose core activity is not pursuing business,
- reporting enterprises not founded or organised to undertake business activities,
- banks, branches of foreign banks, National Bank of Slovakia, Deposit Protection Fund, brokers, investment guarantee fund, asset management companies, branches of foreign asset management companies and mutual funds,
- Export-Import Bank of the Slovak Republic

<sup>8</sup> Laučík, Z. – Klozar, J. – Králiček, V.: Účtovníctvo. Bratislava : Slovenské pedagogické nakladateľstvo, 1990, p. 150.

<sup>9</sup> Act No. 563/1991 Coll. on Accounting.

- insurance companies, branches of foreign insurance companies, reinsurers, branches of foreign reinsurers, Slovak Insurers' Bureau, health insurance companies,
- Social Insurance Company,
- Slovak National Property Fund.

The Ministry of Finance also determines the form, structure, and content of individual financial statements. A consolidated financial statement of individual business and non-business entities is after method and fundamental of International Accounting Standards IAS/IFRS.

The following legal regulations of the European Communities and European Union were incorporated and reflected in the Act on Accounting:

- Fourth Council Directive 78/660/EEC on annual accounts of certain types of companies,
- Seventh Council Directive 83/349/EEC on joint accounts,
- Council Directive 86/635/EC on annual accounts of banks and other financial institutions,
- Council Directive 91/674/EEC relating to annual accounts and consolidated accounts of insurance undertakings.

Along with the directives, the legal regulation also incorporates certain elements of International Accounting Standards for the compilation of IAS/IFRS financial statements. This process ensures the gradual approximation of the bookkeeping of the Slovak Republic to supranational regulations.

### Teaching of bookkeeping at the University of Economics in Bratislava

The Slovak Republic as an EU Member State is approximating legal regulations in the field of bookkeeping to EU legislation. The University of Economics in Bratislava is the mediator of this practical application as well as of the practical application of the latest accounting scientific knowledge in the field of education.

Bookkeeping is one of the oldest economically orientated fields of study taught at universities in Slovakia. Since the time when education at a piarist economic college first started in Senec in 1763, not only the curriculum, which mainly adjusted to practical requirements, but also the methodological approaches of teachers, have undergone several

changes<sup>10</sup>.

Bookkeeping is taught as a compulsory subject at the first level (bachelor studies) for all fields of study at the University of Economics in Bratislava, including the accredited field of study *Bookkeeping*. Bookkeeping is taught in two consecutive semesters in the extent of two hours of lectures and two hours of exercises per week. In the third semester (second year of study) the subject taught is *Bookkeeping A*, and in the fourth semester it is *Bookkeeping B*. At the lectures on these subjects, students learn basic theoretical knowledge from the field of bookkeeping of business entities. In their third year of study students broaden their knowledge in other subjects: *Expense Bookkeeping* and *Financial Statements Analysis*.

At the second level (Slovak equivalent of master of science) of university studies at the University of Economics in Bratislava, bookkeeping can be studied as part of full-time and also distance learning as part of the study programme *Bookkeeping and Auditing* and *Bookkeeping and Financial Management*. Here students extend their knowledge of bookkeeping by studying other professional subjects – *Tax Bookkeeping*, *Management Bookkeeping*, *Financial Bookkeeping*, *Practical Bookkeeping exercises*, *Bookkeeping of Banks*, *Bookkeeping of Companies and Cooperatives*, *Auditing*, *Financial Statements Consolidation*, *International Bookkeeping*, *Bookkeeping of Budget Organisations*, *Bookkeeping of Insurance Companies*.

At the third level of university studies (PhD. study) *Bookkeeping* is accredited as a scientific discipline at the Faculty of Economic Information Science at the University of Economics in Bratislava.

### Conclusion

The conditions of the current development of the economy and international harmonisation require the high expertise of management staff. Such personnel cannot operate in the area of financial management without bookkeeping knowledge. Orientation in the current conditions without appreciating the relations and connections of the development of bookkeeping and its substance poses difficulties. For this reason it is necessary to be aware of history as a whole - not only that of bookkeeping - in order to incorporate positive experience from the past into future directives, regulations and laws.

<sup>10</sup> Hvoždárová, J.: Výučba účtovníctva, súčasnosť a perspektíva. In: Výuka a výzkum v odvetvových ekonomikách a podnikovom managementu na technických vysokých školách. Sborník z mezinárodnej pedagogickej konferencie. Lázně Bohdaneč 19.-20.9.2000. Univerzita Pardubice, Pardubice 2000, p. 267-269. ISBN 80-7194-301-0

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