
Užitočnosť účtovnej závierky v prostredí Slovenska - dáta z 2019 a 2020

Utility of the financial statements in Slovakia - data from 2019 and 2020

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Abstrakt

Na Slovensku, všetky firmy musia zverejňovať svoje účtovné závierky vo verejnom registri účtovných závierok. Účtovná závierka je zostavená podľa presných pravidiel a v predpísanej štruktúre. Užitočnosť skúmame z údajov zverejnených v účtovných závierkach firiem v rokoch 2019 a 2020, kedy boli zasiahnuté nielen pandémiou COVID-19 ale aj zvýšeným finančným rizikom. Užitočnosť reprezentovaná úžitkom je subjektívna veličina. V článku skúmame užitočnosť účtovnej závierky na základe kvality a použiteľnosti údajov zverejnených v účtovných závierkach pre používateľov, ktorí na základe nich robia rozhodnutia. Kvalitu účtovných závierok skúmame prostredníctvom spočítania a vyhodnotenia počtu neprirodzených hodnôt finančných ukazovateľov vypočítaných pre jednotlivé účtovné závierky zo skúmanej vzorky účtovných závierok. Podľa OECD bolo v 2020 na Slovensku 99,6 % firiem zo segmentu SME. V tomto výskume sme preukázali, že významné množstvo firiem vykazuje neprirodzené hodnoty vybraných finančných ukazovateľov, čím sa vytvára priestor pre ďalší výskum dôvodov a možných riešení.

Kľúčové slová

užitočnosť, účtovná závierka, účtovníctvo, finančné riziko, SME, Slovensko

Abstract

In Slovakia, all companies must disclose their financial statements in the public database of financial statements. Financial statements are prepared according to precise rules and in a prescribed structure. We examine utility from data published in companies' financial statements for 2019 and 2020 when they were affected not only by the COVID-19 pandemic but also by increased financial risk. Utility represented by satisfaction is a subjective quantity. In this paper, we examine the utility of financial statements based on the quality and usability of the data disclosed in the financial statements to the users who make decisions based on them. We examine the quality of financial statements by counting and evaluating the number of abnormal values of financial indicators calculated for individual financial statements from the examined sample of financial statements. According to the OECD, in 2020, 99.6 % of companies in Slovakia were from the SME segment. In this research, we have shown that a significant number of companies show abnormal values of selected financial indicators, which creates space for further research of the reasons and possible solutions.

Key words

Utility, Financial statements, Accounting, Financial risk, SME, Slovakia

JEL classification

M41, M48, O14

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1 Introduction

Disclosure of a financial statement is mandatory for every business company which submits Income Tax return in Slovakia. (Vlčko & Meluchová, 2021) Compilation of Income Tax return must be performed before the compilation of the financial statement as the Financial Statement contains the information of the Income Tax; large companies disclose also information of deferred tax. (Krupová, et al., 2005) Compilation of financial statements is required (and described) by the Slovakian Accounting act (Act no. 431/2002 Z. z. on accounting, 2002) and Regulations of the Ministry of Finance (further as “accounting rules”) every company have to follow in very precise way. In Slovakia, financial statements are being submitted and disclosed in the public database of financial statements available free of charge to anybody through the official web site www.registeruz.sk. Such approach provides a certain level of guarantee for the users of the financial statements of their genuine origin + public disclosure provides certain responsibility stress to the issuers of the financial statement of their public scrutiny. Financial statements disclosed through the official database could be used by the financial statement users for the official purposes such as risk assessment of a business partner, financial analysis of a credit institution, verification of subsidy applicants, verification of the company’s operation volume, etc. In this paper we examine the utility of publicly disclosed financial statements for the users of potential financial statements users. (Mokošová, et al., 2013) or (Parajka, 2015) Despite of public availability of company’s financial statements, in special cases the company may disclose also non-public information alongside its financial statements to a special financial statement user, (Vlčko & Meluchová, 2021) for example Tax return may be disclosed to a credit institution or an interim information may be disclosed to new or strategic business partner, etc. Therefore, it is worth to examine who are real public financial statements users and whether publicly disclosed financial statements compiled according to the accounting rules are useful compared to the expense and effort the company must suffer to compile the financial statements.

Utility is one of the fundamental concepts in economics. (Mankiw, 1999) It is used to disclose, to measure, to investigate and to research the relation between satisfactions of the market participant to an economic input consumed by the market participant. Satisfaction is usually studied applying two approaches: 1. Satisfaction measurement is limited to Boolean values, or 2. Satisfaction measurement is performed by a scale values. Scale satisfaction measurement of an individual usually lacks objectivity which is the key element for verification of gathered data. Even thou, data from several subjective assessments of an individual’s satisfaction may provide the input for further research and studies. The researcher who applies such approach shall take into account the potential bias that the subjective information may contain.

Utility of disclosed financial statements for the user may be evaluated in two ways:

- Disclosed financial statements contains all necessary/required/needed information for the financial statement’s user. (Horngren, 1959)
- Disclosed information is capable for further processing, and data analysis. For example, to provide data for financial analysis, risk assessment, economic metrics etc.

Financial statement database contains thousands of records. It is essential for data machine processing to disclose the financial statements according to standardized structure. Therefore, in Slovakia, the financial statements must be disclosed in the standardized structure given by the Ministry of Finance regulation (Opatrenie Ministerstva financií SR z 11.decembra 2013 no. 2013). This does not apply to companies which disclose their financial statements according to IFRS. IFRS Financial statements are not subject of this research as IFRS financial statements are disclosed for the purposes by the companies which are either publicly listed or are of public interest. (Tumpach, 2006) Companies disclosing IFRS financial statements

disclose information which by the definition of IFRS are considered as useful for its users. (Kovanicová, 2005)

Financial statements user's satisfaction with financial statements may be measured by the utility it provides in both above mentioned ways. In this paper we apply the approach to evaluate utility by measuring satisfaction of provided information in disclosed financial statements. (Ondrušová, 2016) For both ways, to maximize objectivity of this research, we limit to the Boolean measurement of satisfaction assessing whether the discloser satisfies or dissatisfies the user of the financial statements.

2 Financial statements utility measurements (methodology and research)

Out of the public database of financial statements in Slovakia which is publicly available we selected 2 samples of financial statements submitted by business companies which meet these criteria:

- Legal form is either Joint Stock Company or Limited Liability Company. Public database of financial statements contains all financial statements officially submitted, including limited partnership companies, NGOs which voluntarily or by law submit their financial statements, foreign company branches registered in Slovakian business register (without legal form), etc. Self-employed people who have submitted their financial statements do not have their financial statements publicly disclosed in the official financial statement database due to protection of their personal information written in their financial statements.
- Company do not have disclosed its date of termination. For the purposes of this research, we have chosen only sample of companies which apply going concern principle. Otherwise, there is strong perception that the financial statement of a company which have stopped its operation is somehow unsound.
- P&L is disclosed with nonzero figures. Not submitting financial statements in two consecutive years is the legal reason for ex officio erasing the company from the business register. Therefore, so called sleeping companies rather submit zero financial statements to prevent ex officio erasing from the business register = erasing the company for good.
- We have been able to withdraw data of companies from both years: 2019 and 2020.

Companies which meet the above criteria were selected to the sample no. 1

Test no. 1. On the sample no. 1 we performed test for obvious discrepancies in the official disclosed financial statements. The results are shown in the table below.

Tab. 1: Obvious discrepancies in the sample of LTD and LLC financial statements of 2020

	Observations 2019	% 2019	Observations 2020	% 2020
Sample	39471	100.00%	37874	100.00%
Negative assets	52	0.13%	58	0.15%
Balance sheet does not balance (Assets ≠ Liabilities)	165	0.42%	41	0.11%
PaT in P&L ≠ PaT in Balance sheet	190	0.48%	133	0.35%
Negative revenues from economic activity	18	0.05%	19	0.05%
Negative expenses from economic activity	43	0.11%	46	0.12%

Source: Own data analysis, 2019.

Out of sample no. 1 we erased the financial statements with obvious discrepancies mentioned above. Remaining financial statements were gathered into sample no. 2. All the statements still meet the above-mentioned criteria.

Test no. 2. On the sample no. 2 we calculated 9 metrics and ratios. (Kalouda, 2004.) Overview of statistic is shown in the Tab. 22. Metrics and ratios have been chosen due to their easy calculation from the financial statements' figures. Metrics and ratios have been calculated not to provide deep analysis, but to study whether the disclosed data are of the quality required by the potential independent financial statement user. In 2020, there have been 99.6 % of all companies in Slovakia from the SME segment. (*Financing SMEs and Entrepreneurs 2020*. 2020). SME in general do not have to or is entitled to submit its financial statements according to IFRS and most of them are not subject to audit.

Tab. 2: On sample of 36807 financial statements form 2020 we calculated following metrics and ratios

	Std. deviation	Median	Average	Min	Max	Null values %	Null values
Revenue Growth Rate	4365.442857	0.951075924	61.74605729	0.000010402	612900	0	0
Earnings per Share (EPS)	688.1206339	0.194155746	6.90552536	-4373.50544	131404	0.005162062	190
Debt to Equity Ratio	476.786819	0.56763984	8.67266334	-581.220779	73516.5909	0	0
Current Ratio 2022	16795.76161	1.890206316	128.0141071	-500706	3043311.222	0.024533377	903
Inventory Turnover	50.0063559	1.34960553	3.00305269	-101.515502	5672.53624	0.62604939	23043
Accounts Receivable	93451.34549	0	887.7804818	-1835.428571	15843433.33	0.077349417	2847
Working Capital 2020	5937248.58	23187.5	379307.2395	-59484342	970069618	0.024533377	903
Acid test ratio 2020	121.098242	0	1.01281663	-34.7279228	21486.8784	0.02542995	936
Long term Debt	55.7038481	0.00940994	1.20030606	-19.9521149	5815.3	0.27187763	10007

Source: Own data analysis, 2020.

Test no. 3. To quantify utility of financial statements publicly disclosed in the public database of financial statements we roughly counted abnormal values of each above-mentioned metrics and ratios. Scale of abnormal values may be different for each industry; therefore we limit ourselves to more general determination of abnormality. Abnormal values may have happened by several reasons for example: accounting error, onetime event, market conditions such as COVID-19 (Blahušiaková, 2022a), or they simply represent company situation. Not all abnormal values are erroneous. Due to computing limits available to us, we are not capable to determine each reasoning. We can access portion of abnormal values to all values to set up whether it is a trend or not. Financial metrics and ratios are meant to be used for individual company assessment and their abnormal values shall not be explained by erroneous financial statement at first, but by unpleasant situation of the studied company. (Blahušiaková, 2022b) In the other hand, if the abnormal values of the metrics and ratios represent significant portion from all disclosed financial statement there arise a concern that the abnormal values of significant portion of companies is not caused by their unpleasant situation only. Quality of financial statements of the Slovakian companies, mostly SMEs, can be observed by significant portion of abnormal values of financial metrics and ratios.

Overview of the statistics and explanation is shown in the Tab 3.

Explanation and reasoning of the abnormal values shall be disclosed in financial statements notes. As the significant portion of companies are SMEs without audited financial statements, the notes are in many cases limited to disclosing only legally required information. Further research is needed to more accurately describe the root of the significant portion of abnormal values of financial ratios.

Furthermore, quality of the financial statements shall be considered to the upcoming changes (Decision (EU) 2022/2481 Of the European Parliament and of the Council of 14 December 2022 establishing the Digital Decade Policy Programme 2030. 2022) in accounting and reporting due to implementation of automation and digitalization (Vlčko & Meluchová, 2022) including implementation of artificial intelligence (Agostino et al., 2022). Due to significant amounts of companies submitting financial statements every year it is worth of research how much lack of professional accounting professionals affect the overall quality of disclosed financial statements.

3 Results

Even there have been obviously erroneous financial statements publicly disclosed, the portion of the obviously erroneous statements is insignificant. As the submission of financial statement in Slovakia is only digital, there have been implemented automated validation data checks into the process of submission of financial statements, which prevent submission of obviously discrepant financial statements.

Utility of Slovakian financial statement for the user of the financial statement is satisfactory only in case the financial statements are submitted without errors. By submission of any, even zero valued, financial statement the legal requirement to submit the financial statements is met. Misrepresentation of economic records is considered in Slovakia as a felony, but it does not prevent companies and their representatives to submit erroneous or zero valued financial statements into the public database. Utility of such financial statements is questionable. Further research is needed to come up with the more detailed proposals for remedies. If the significant portion of financial statements in Slovakia are erroneous, the question arises whether the legal requirements for precise compilation of financial statements are not onerous for many companies (SMEs). This paper showed that there is still place for further research and development in the area of financial statements disclosures in Slovakia. As

financial statements shall disclose the real situation of a company, there shall be a scrutiny in place to verify the quality of financial statements publicly disclosed.

Tab 3: Overview of abnormal metrics and ratio values calculated and counted from the sample

	Percentage of the sample	Counts in the sample	Count criteria	Short explanation
Revenue Growth Rate (2019-2020)	0.00%	0	Count of zero and negative values.	A significantly negative or zero revenue growth rate may signal stagnation or declining sales. Extremely high growth rates might be unsustainable or due to an anomaly.
Earnings per Share (EPS) 2020	37.27%	13717	Count of zero and negative values.	Negative or stagnant EPS growth could indicate profitability issues. Extraordinarily high EPS growth may be due to one-time gains or accounting anomalies.
Debt to Equity Ratio 2020	44.18%	16261	Count of values below 0.5 and above 1.5.	A very high debt-to-equity ratio can indicate excessive leverage and financial risk. Conversely, a very low ratio may suggest a company is not utilizing debt for growth effectively.
Current Ratio 2022	27.71%	10200	Count of values below 1.0	A current ratio well below 1.0 suggests liquidity problems. A very high current ratio may mean that the company is not efficiently utilizing its current assets.
Inventory Turnover 2020	32.43%	11938	Values below 4 and above 6.	A very low inventory turnover might indicate overstocking, obsolescence, or inefficiency. An exceptionally high turnover may suggest stock outs or lost sales.
Accounts Receivable Days 2020	0.11%	39	Values below 0 and above 365.	A high accounts receivable days figure may indicate that the company has trouble collecting payments from customers promptly. A very low figure may signal aggressive credit policies or potential sales challenges.
Working Capital 2020	26.78%	9858	Count of negative values.	Negative working capital could be problematic as it may indicate a liquidity shortage. A very high positive working capital might imply inefficient use of resources.
Acid test ratio 2020	0.05%	20	Count of values below 1.0	A quick ratio significantly below 1.0 may raise concerns about short-term liquidity, especially when a company relies heavily on inventory. A very high quick ratio may suggest inefficient asset use.
Long term Debt Coverage	71.31%	26248	Values below 1.0	A ratio significantly below 1.0 (e.g., 0.5 or lower) raises concerns. It indicates that the company may have difficulties generating enough cash flow to service its long-term debt. This situation may lead to financial distress, the risk of default, and credit rating downgrades.

Source: Own data analysis

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