

Key aspects of preparing annual reports 2/51/22

We are fast approaching the year end and the time to prepare our annual reports. As you may know, the last two years saw a 3-month filing extension, which allowed us more time to prepare our financial statements. Based on currently available information, no extension is expected this year. This article will remind you of things to consider when it comes to preparing your annual report, including whether it requires a statutory audit or a limited review.

When is a statutory audit or a limited review necessary?

As we are about to close the year and summarise our balances, we encourage our readers to start with a data assessment to see if your financial statements need a statutory audit or a limited review. It's advisable not to leave this assessment to the last minute so that your annual report is prepared and filed with the State Revenue Service on time.

The Company and Consolidated Accounts Act states that a statutory audit is required if a company's indicators for two consecutive years (the current and the previous), and a newly formed company's indicators on the balance sheet date of its first financial year, exceed two of the following thresholds:

- Balance sheet total of EUR 800,000
- Net turnover of EUR 1,600,000
- Average headcount of 50 in the financial year

An audit includes an accounting review to see if your books meet statutory accounting requirements and comply with section 91(3) of the Company and Consolidated Accounts Act.

A limited review is necessary for companies whose indicators on the balance sheet date for two consecutive years exceed two of the following thresholds:

- Balance sheet total of EUR 400,000
- Net turnover of EUR 800,000
- Average headcount of 25 in the financial year

Even if your indicators meet the criteria for a limited review, your company is allowed to conduct a full audit. Companies are also free to conduct an audit voluntarily if they do not qualify for a statutory audit.

Controls

It's crucial that your company has performed debtor/creditor controls and conducted a stocktake of its assets and inventories.

Debtors/creditors

Your company should reconcile its balances with all its debtors and major creditors in good time, stating the year-end balance and the turnover. This will help you discover any invoices that were not received from a creditor or not sent to a debtor during the year.

It's crucial to assess when receivables arose with invoices remaining unpaid to date, which will affect your corporate income tax (CIT) return. For details see our article on the CIT treatment of debtors.

Fixed assets

A stocktake involves verifying the physical existence and useful life of your fixed assets. This means that based on available accounting information a comparison should be made to see if those fixed assets exist in reality and if they are worn or damaged. If they are worn, damaged and no longer used in business, your company should assess whether they should be derecognised.

Please note that the acquisition cost and depreciation of fixed assets that are not or will not be used for business purposes are subject to CIT, just like other non-business costs.

Accruals/ accrued liabilities/ accrued revenue

At the year end, your company should assess what kinds of accruals or accrued liabilities should be made, how to estimate the amounts of revenues and liabilities related to the financial year if invoices are issued in the next tax year:

- Accruals are intended to cover liabilities related to the financial year that are foreseeable or known but whose value, or the date a particular liability arose or will be covered, is not precisely known.
- Accrued liabilities are recognised if the amount and payment date of a liability can be calculated fairly accurately.

Type of accrual

Accruals or accrued liabilities for unclaimed vacations/ bonuses

At the end of the financial year your company should calculate the amount due for unclaimed vacation days. If you anticipate any bonus costs that are attributable to the financial year but will be paid in the next year, those also need accruals or accrued liabilities to be set up.

Recorded under liabilities on the balance sheet and in the profit and loss account (P&L)

Calculation of unclaimed vacation:

Number of Unclaimed Vacation Days x Average Earnings x Employer's National Social Insurance Contributions

It's important here to pay attention to the period for which a supplier invoice is received in the next year and when the services are received. If an invoice is issued in the next year for the previous tax year but services are received in the tax year for which the annual report is being prepared, your company should recognise costs in the financial year they were incurred and should set up accrued liabilities.

Recorded under liabilities on the balance sheet - Accrued Liabilities and in P&L (Costs)

Accrued liabilities

Accrued revenue

It's important here to assess when the revenue arose. As with accrued liabilities, if revenue arose in the period for which the annual report is being prepared, but an invoice is issued in the next year, your company should set up accruals and recognise revenue in the year in which sales of goods or services generated or should have generated income.

Recorded under assets on the balance sheet - Accrued Revenue and in P&L (Revenue)

When the time comes to prepare your annual report, we encourage our MindLink subscribers to read our recommendations for making your processes more efficient in this article.

We would also like to remind you that each company has to adopt an accounting policy so that any accountant working for a certain company would have a clear idea of what principles need to be followed. Your accounting policy is an accountant's guide to your company's books and key accounting principles, such as revenue recognition and accounting for assets and liabilities.

Please also note that the new Accounting Act and the related Cabinet Rule apply from 1 January 2022, so any references made in your accounting policy and in the notes to the accounts need adjusting to indicate the effective pieces of legislation (for details see our article on the changes).

Our tax management and accounting team provides services aimed at tailoring and developing company accounting policies.