News Flash

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The most important amendments to accountancy regulations in Hungary for 2017

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In our previous newsletter, we reviewed the most important tax amendments of the **Act CXXV of 2016 on the amendments of certain tax laws and other related laws**. Besides the tax regulations, the referred act also modifies the rules of accounting in several points from the year of 2017, therefore we considered necessary to discuss the details of it and devote a separate newsletter for this topic from the aspect of accountancy. The modifications shall be applied from the financial year of 2017, but substantial part of them can be applied for the financial year of 2016 too.

The modifications affecting three main fields what we are going to be presenting without exhaustively:

1. **Derivatives and hedges**
2. **Custom IFRS reporting**
3. **Other topics, mainly clarifying provisions**

Derivatives and hedges

Derivatives

- The specification of underlying financial instruments affecting the value of transactions had been clarified in the definition of derivates, instead of the former commercial papers, now any financial instrument can be considered as underlying. It had been clarified, that derivatives cannot be engaged in transactions for those products whose any characteristics can depend on any of the contracting parties.
- Provisioning had been ceased, thus if a company does not apply fair value measurement according to their content, the earnings of their trades should be charged against their accrued assets or expenses. Offset accounts –according to the current practice- are the incomes/expenditures of financial operations and other received/paid interest. Those cash-flow transactions are exceptions to the rule, which covers future entering assets/liabilities (for example foreign exchange risk related to an acquisition of a predicted future entering tangible asset). In this case the effective portion of realized profit transaction has to be accounted as an item adjusting the cost of asset/liability.
- Contracts on non-financial asset purchases particularly considered as derivative instruments, if it is settled net in cash or by delivering other financial asset. In relation to this, delivery transactions related to commodity can be considered as net settled too and in the future not the form of transaction will settle that an instrument is derivative or not, but the real content of the transaction.

Hedges

- The definition and conditions of hedges had been modified, thus hedge is such a derivative transaction (excluding the written options) or (solely with regard to currency risk) such a non-financial derivative or financial liability, what were involved into a designated hedging relationship and whose fair value or cash flow expectedly counterpart the occurred the fair value or cash flow changes from hedged transactions. Only transactions concluded with hedging purpose and thus specified counts as hedging transaction.

According to the modified rules

- Counter transaction can be concluded for basic transaction after their establishment.
- Some part of the whole hedging transaction (e.g. certain % of the nominal value) can be marked as hedge.
- In case of hedging transaction, the hedge can be marked for several risks, if the risks can be clearly indentified and it is possible to guarantee that the hedging transaction and the several risk positions are clearly indicated.

New definitions

- <u>Intrinsic value</u>:
  The margin between the current market value (fair value) of the asset subjected to the trade and the value calculated of the contract price. In case of interest rate swap, the intrinsic value is the interest rate margin for the remaining time, due to the principal amount of the of the actual variable floating rate and fixed floating rate.
- <u>Firm commitment</u>:
  Binding agreement about the exchange of certain amount of assets, at a certain future date, at certain prices.
- <u>Hedge effectiveness:</u>
  It shows that how the changes in the fair value or the cash-flow of the hedges balance the changes in the fair value or the cash flow arising from hedge risks at the start of the transaction and during its total maturity.
  The importance of the measurement is that the rules of hedge accounting are only can be applied while the hedge transaction is effective.

Custom IFRS reporting

- The notification requirement on switching towards to the Hungarian Central Statistical Office (KSH) ceases and the deadline for notification towards to the Hungarian Central Bank (MNB) is amended to 30 days from the current 90 days.
- In case of newly founded companies without predecessor, the reporting under IFRS became optional, if they are declare it to the tax authority within 90 days after foundation and attach the necessary auditor report about the preparedness.
  (Of course in this case the tax authority will not consider the opening data.)
- It will be mandatory to every entrepreneur whose business had been authorized in the regulated market of any state from the European Economic Community (EEC) during the financial year to switch to IFRS reporting. The deadline of the notification is the 30th day after obtaining the permit or 30 days prior the date of transition to IFRS's, depending on whichever is later.

Other topics, clarifying provisions

Other organizations

- The definition of other organizations had been clarified and extended by naming the Integration Organization of Cooperative Credit Institutions and with collecting societies (e.g. Artisjus)

Opening books at transformation

- The amendment fills a gap with the disposal about business organizations newly founded by transformation; merge or division shall open their accounting records by the following day after their transformation, merge or division by their final balance sheet and final property inventory.

Applicable rate at bookkeeping in foreign currency

- In case of bookkeeping in foreign currency, arising transaction in the bookkeeping in a currency other than the currency of bookkeeping have to be treated equally as the transactions in HUF.

Accounting repayable amounts of received aid

- The repayable amounts of received aids and grants recognized as cost compensation from the previous financial years have to be accounted among other expenditures.

Accrued income and deferred charges of borrowing costs

- In case of obtaining credit or loan, directly related expenses (refund bank guarantee, debt monitoring fees and disbursement commission) can be accrued (just optional, not compulsory!) if they are considered at their costs. The termination has to be closed proportionately with the duration of the debt, but no later than at its financial settlement.

It is important to highlight that in our current material, we only dealt with the main amendments of the latest tax package, therefore if you need further detailed information or you have any question related to this topic, please feel free to contact us, our colleagues would be pleased to help you.

About the author

Prior to joining Accace, Zsuzsa was working at Interbook Kft as the Manager of the Accounting Division. Originally, Interbook Kft operated as the accounting/bookkeeping branch of Ernst&Young Kft, but from the year 2000 began operating as a separate legal entity, independently from its former parent company and in 2011, merged with Accace's Hungarian branch.

Currently she is the Manager of the Accounting and Payroll Division and with more than 25 years of professional and more than 15 years of managing experience, she ensures service delivery to local and multi-national clients is at its highest quality level.

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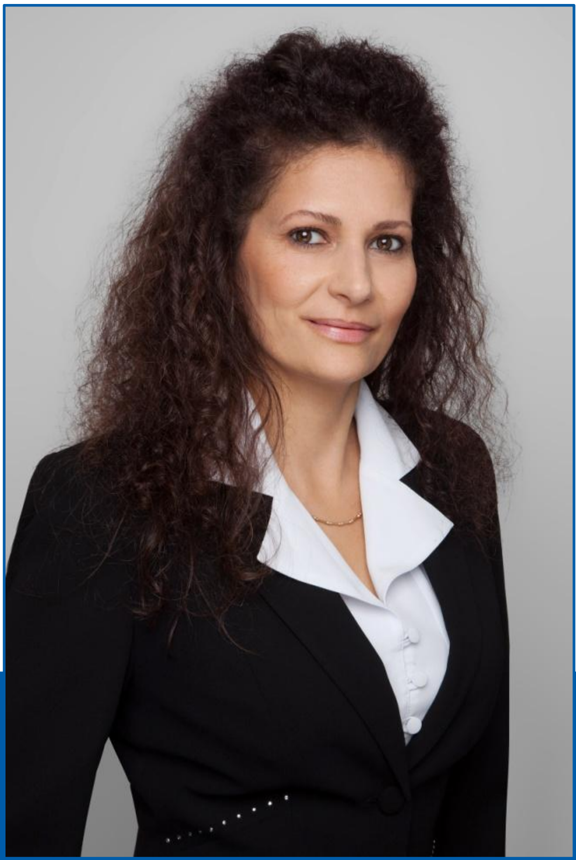

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