RECOMMENDED ACCOUNTING RULES 2016

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Recommended Accounting Rules 1 (2016)

BOOKKEEPING DOCUMENTS

A Introduction

These Rules apply to bookkeeping documents as a basis for recording transactions in the books of account. They deal with:
(a) the definition of bookkeeping documents;
(b) the preparation and the transfer of bookkeeping documents;
(c) the control of bookkeeping documents and the preparation of posting orders;
(d) the storage of bookkeeping documents.

These Rules rely on the scientific achievements and experience of the national and international profession in the field of bookkeeping documents. They also determine the general conditions that shall be complied with when preparing electronic bookkeeping documents. They specifically relate to Recommended Accounting Rules (RARs) 2.

The Rules (Section B) shall be read in the context of key definitions (Section C), clarifications (Section D), the Introduction to the Slovenian Accounting Standards and the SAS Framework (2016).

B The Rules

(a) Definition of Bookkeeping Documents

1.1 Bookkeeping documents are generally records of transactions or business events (including those disclosed in off-balance sheet records) prepared in a specific format; transactions cause changes in assets, liabilities, revenue and expenses. They are used to record transactions and to transfer bookkeeping data. They may also have a format of electronic records.

Bookkeeping documents (paper-based documents or electronic records) shall present business events in a credible and fair manner.

1.2 Before a transaction or a business event presented in bookkeeping documents can take place, an order for its execution shall be issued. The organisation's management decides on the issuance of such orders. Orders are then issued by persons who are in charge of designing business processes and authorised to initiate business events (transactions). Orders are normally issued in writing (in a physical or non-physical form). The execution order may be combined with the bookkeeping document on the completed transaction, but the contents of the former shall always be distinct from the contents of the latter. An execution order is not a bookkeeping document.

1.3 In terms of the place of preparation, a distinction shall be made between external and internal bookkeeping documents. External bookkeeping documents are prepared outside the organisation in which significant events for it occur, whereas internal accounting documents are prepared in the organisation’s units in which the events take place or in the units of the organisation’s accounting department.

The organisation shall specify in its general act the internal and external bookkeeping documents it shall prepare as well as their contents and format.

1.4 Bookkeeping documents can be either original documents or secondary documents. Original bookkeeping documents are prepared at the place of their origin and on accrual basis, while secondary bookkeeping documents are prepared on the basis of the original bookkeeping documents or in connection with transfers in the books of account, such documents are, for example summary vouchers or distribution vouchers.

1.5 The names of bookkeeping documents denote the contents of the transactions shown in the documents. Changes in or transactions relating to things are recorded, for example, on receiving reports, delivery reports, dispatch reports, write-off reports, scrapping reports, movement reports, elimination reports, asset capitalisation documents, turn-over reports, delivery notes and/or other bookkeeping documents. The names of bookkeeping documents (original and secondary) and their mandatory and other essential components shall be determined by the organisation in its own general act, except for those mandatory components specified for each document by applicable regulations.

(b) Preparation and Transfer of Bookkeeping Documents

1.6 As a general rule, bookkeeping documents evidencing transactions are usually prepared at the place of their origin and on accrual basis, and follow the discharge principle: all data are entered by those who are to be discharged by the document and confirmed by those who are charged against on the basis of that document.

1.7 Original bookkeeping documents on transactions are prepared at the place of their origin and at the time of their occurrence by persons involved in them. The organisation shall specify the contents of each type of bookkeeping document in its general act. Bookkeeping documents shall contain the following information, as a minimum:

(a) the identification code of the document and the running number of the document;
(b) details of the organisation where the transactions take place and the persons responsible;
(c) details of the business event;
(d) changes in the business event expressed in monetary amounts;
(e) details of the place and date of issue of the bookkeeping documents (for internal bookkeeping documents, details of the place are not necessary);
(f) the date or period of the occurrence of the business event;
(g) identification of the persons authorised to ensure the truth and authenticity of the bookkeeping documents;
(h) the elements required by the applicable rules, depending on the type of document.

Original bookkeeping documents shall be issued in the required number of copies; the purpose, their number and their distribution shall be determined by the organisation itself.

1.8 With regard to any bookkeeping document prepared by the organisation, a natural person(s) responsible for its truthfulness and credibility shall be appointed. The general act of the organization shall specify the method of correct and credible presentation of business events in bookkeeping documents.

1.9 Bookkeeping documents are transferred from the place of their preparation or entry in the organisation, through the place where the data contained are controlled and processed, to the place at which they are stored. The transfer of bookkeeping documents shall enable that the data contained in these documents are processed as soon as possible after the business event. Bookkeeping documents may also be transmitted electronically, but the organisation shall ensure an adequate audit trail or the authenticity of the origin, the integrity of the contents and the legibility of the document.

Bookkeeping documents shall also be considered authentic if they are transmitted by telecommunications or are received electronically and consist of bookkeeping data. The person receiving and transmitting electronically received data shall be responsible for ensuring that the data are authentic and transmitted and/or entered in a trustworthy manner, following verified and authentic procedures.

The general act of the organisation shall specify the persons authorised to receive, enter and transmit bookkeeping data and that such data shall not be altered in the course of receipt, entry and transmission.

The authenticity of the origin and the integrity of the contents of electronic documents may also be ensured by means of advanced electronic signatures or electronic data interchange (EDI).

1.10 Internal bookkeeping documents prepared by the accounting department shall be drawn up whenever:

- secondary bookkeeping documents are prepared on the basis of bookkeeping data contained in the original bookkeeping documents;

- a basis is created for the processing of data relating to the statement of account of operations and profit or loss;

- a basis is created for the processing of data relating to the correction of bookkeeping errors, by the opening of the books of account, the closing of profit or loss accounts, the closing of the books of account and other bookkeeping procedures.

1.11 An organisation shall keep a list of original bookkeeping documents that are prepared, specifying the responsibilities of the persons preparing them and the precise deadlines for their transfers. In addition, an organisation shall also have a list of the secondary bookkeeping documents, identifying the persons who prepare them or who are responsible for the preparation of the application programmes for computerised compilation of bookkeeping documents and the persons responsible for the use of those applications. A person shall be appointed for external bookkeeping documents; this person accepts them and is also responsible for their transfer.

Bookkeeping documents shall be currently transferred to the bookkeeping department, i.e. backlogs shall be avoided in places through which they are transferred.

The application programmes used for the preparation of the bookkeeping documents shall be tested and validated before they are used.

(c) Control of Bookkeeping Documents and Preparation of Posting Orders

1.12 Within the framework of data processing, original bookkeeping documents evidencing the contents and extent of the realised transaction shall be controlled before any data are posted.

Bookkeeping documents shall be controlled in compliance with the principle of truthfulness, i.e. that the data contained reflects the actual balance and movement of assets, liabilities, revenue and expenses. Bookkeeping records are authentic if, they present, during the control that professionals not involved in the transactions can, on their basis alone, clearly and beyond any doubt understand the nature and extent of the transactions.

Bookkeeping documents shall be controlled at one or more locations (centralised or decentralised) prior to posting and may also be controlled by computer using applications designed for the types of bookkeeping documents.

1.13 The relevant act of the organisation shall specify the method in which the bookkeeping documents are controlled, the persons involved and the method according to which the transactions occurred are posted.

(d) Storage of Bookkeeping Documents

1.14 The organisation shall define in its general act the method of storing bookkeeping records (paper–based or in the form of electronic records).

Once the annual financial statements have been audited, if the audit is required by law, or the annual financial statements have been adopted, the paper-based bookkeeping documents shall be archived or the computer storage media stored. Bookkeeping documents are kept as originals on paper or, when computerised, in databases on different data carriers, which may also be digitised, and transferred from the originals.

Paper-based bookkeeping documents shall be disposed of regularly as specified by the organisation in its general act. The archiving periods for original documents shall also be defined by the organisation in its general act. The minimum archiving periods shall not be shorter than those laid down in the applicable regulations. Electronic documents shall be stored on data carriers and in a form that allows traceability, completeness of archiving and the possibility of reproduction or extraction in the original unaltered form.

C Key Definitions

1.15 These Rules use some terms which need to be explained in order to define the key concepts.

(a) Bookkeeping data are data, expressed in a monetary unit of measure, about transactions entering the bookkeeping process on the basis of original bookkeeping documents. They are prepared on that basis in the bookkeeping department, leave the bookkeeping department for further processing, and are stored in the bookkeeping department, but are not yet evaluated and prepared as a basis for decision-making.

(b) Bookkeeping information includes focused and addressed messages about the past balance and movement of assets and liabilities, prepared by the bookkeeping department on the basis of bookkeeping data. It is proposed to users for their decision-making purposes or kept in the bookkeeping department for that purpose.

(c) A bookkeeping document is usually a record of a transaction, prepared in a specific format, it is used as the basis for entering bookkeeping data in the books of account and for controlling the transaction that it records.

(d) An execution order is a document that initiates the execution of a transaction that results in a liability to or receivable due from a business partner or in an activity within an organisation which results in a change in assets, liabilities, revenue or expenses.

(e) An external bookkeeping document is a bookkeeping document prepared outside the organisation.

(f) An internal bookkeeping document is a bookkeeping document prepared within the organisation.

(g) An original bookkeeping document is a bookkeeping document prepared at the place of transaction by another legal or natural person or by the organisation itself.

(h) A secondary bookkeeping document is a bookkeeping document prepared in a bookkeeping department or computer centre that processes bookkeeping data, based on bookkeeping data obtained from original bookkeeping documents.

(i) Electronic bookkeeping document is a document that reflects the occurrence of business events and is issued and received in any electronic form of record. The format of the record shall be determined by the organisation. Documents that are created electronically, for example, by accounting or word processing software, and that are sent and received in a paper format are not considered electronic documents.

(j) Authenticity of origin means ensuring the identity of the document's issuer. The identity of the issuer of the document shall be ensured, for example, by means of an advanced electronic signature or electronic data interchange.

(k) Integrity of contents means that the contents of the electronic document has not been altered during transmission, receipt and processing and storage. It shall be ensured by business control procedures that create a reliable audit trail.

D Clarifications

1.16 An insight into the balance and movements of assets and liabilities, revenue and expenses shall be provided at all times. Assets and liabilities are involved as inputs and outputs of business operations and the organisation shall receive bookkeeping documents about these movements from the environment as well as issue them. Business events associated with the movement of assets within an organisation that generates products and services shall be presented in credible accounting records.

1.17 Execution orders shall be prepared on uniform standardised bases or formats and their contents shall be adjusted to the types of business events that they initiate (launch).

1.18 As a general rule, specific types of original bookkeeping documents shall be prepared on uniform bases or formats.

An original bookkeeping document may be the basis for posting as an original, a copy, a certified copy or an appropriate form resulting from an electronic data interchange. Credibility of posting bases shall be defined by the organisation in its general act.

Documents already issued shall not be corrected, but a change in the extent or value of an event shall be achieved by issuing new documents and referring to the original documents being corrected. The organisation shall provide an appropriate audit trail for each change in a bookkeeping document.

1.19 Prior to posting, internal accounting documents may be controlled in several places (unfocused). This form of control allows the controller to verify the substance of the document. The aim of the control is to check the credibility of presenting transactions.

Bookkeeping documents are controlled along the entire route leading from the issuer of bookkeeping documents to the place where the bookkeeping treatment of transactions takes place.

1.20 The organisation shall specify in its general act the methods and forms of archiving bookkeeping documents during and after the accounting period. It shall also determine the appropriate place and

responsible persons. It shall keep them with due diligence for the periods stipulated by law and those specified in its general act.

1.21 An audit trail shall include original documents, processed transactions and references to the link between those elements. The audit trail can be considered reliable when the link between the evidence and the processed transactions can be easily traced (if sufficient information is available to link the documents), when this is in accordance with the stated procedures, and when it provides an overview of the procedures actually carried out.

E Date of Adoption and Effective Date

1.22 These Rules were approved by the Council of Experts of the Slovenian Institute of Auditors at its session held on 11 December 2015. Organisations whose financial year is identical with a calendar year shall apply these Rules for periods beginning 1 January 2016, while other organisations shall first apply them for the financial year beginning after this date.

From the date on which these Rules come into effect, organisations shall cease to apply SAS 21 – Bookkeeping Documents (2006).

Recommended Accounting Rules 2 (2016)

BOOKS OF ACCOUNT

A Introduction

These Rules apply to the keeping of books of account (accounting records), i.e. to the process of bookkeeping. They deal with:
(a) the definition of books of account;
(b) the system of accounts in the books of account;
(c) the entries in the books of account; and
(d) the storage of books of account.

These Rules shall rely on the general accounting theory and relate specifically to Slovenian Accounting Standards (SASs) 1-17, 20-23, and the Recommended Accounting Rules (RARs) 1.

The Rules (Section B) shall be read in the context of key definitions (Section C), clarifications (Section D), the Introduction to the Slovenian Accounting Standards and the SAS Framework (2016).

B The Rules

(a) Definition of Books of Account

2.1 Books of account are linked books, card files and databases with entries on business events or transactions that give rise to changes in assets, liabilities, revenue or expenses, and are shown in bookkeeping documents. Books of account are bookkeeping records resulting from the established bookkeeping process of data processing.

2.2 Books of account as defined under RAR 2.1 are produced exclusively within bookkeeping as a component of accounting; however, they are not produced in the course of budgeting, accounting supervision and in the carrying out accounting analyses. Although any planned transactions in budgeting could be recorded in a manner similar to that applied to realised business events in bookkeeping, the keeping of books of account merely represents the recording of actual economic categories and their changes, which provides for legal evidence in formal terms. Books of account are not kept specifically in accounting supervision and accounting analyses, although the data from the books are subject to accuracy or quality testing.

2.3 Books of account are divided into the general ledger and subsidiary ledgers. Subsidiary books of account are analytical (subsidiary) records and other subsidiary ledgers (subsidiary bookkeeping records). An organisation shall specify in its general act which subsidiary books of account and analytical records it will keep. The organisation shall provide insight into the books of account in such a way as to show the sequence of entries of transactions in the books of account (the posting journal) and the changes in assets, liabilities, revenue and expenses, classified into the appropriate accounts.

2.4 Books of account do not summarise all the data on realised business events, but only of those that can be expressed in a monetary unit of measure and, at the final stage, make it possible to know the value of assets, liabilities, revenue and expenses by type and in total. Neither operative records of individual events nor statistical records are considered to be books of account.

2.5 Books of account are produced in the process of bookkeeping within financial accounting and cost accounting. Financial bookkeeping as a component of the former monitors assets, liabilities, revenue and expenses; in greater detail it deals only with those associated with the relationships between the

organisation concerned and other organisations. Cost bookkeeping as a component of the latter specifically monitors in detail the available elements of the business process, the manner in which they are consumed, as well as the generating of products and services. No specific books of account are produced within the process of management accounting since it relies on the books produced within financial accounting and cost accounting.

2.6 The general ledger, certain analytical records and other subsidiary books of account are primarily kept within financial accounting. Cost accounting, on the other hand, produces most of the analytical records and other subsidiary ledgers.

2.7 Analytical records relate, for example, to property, plant and equipment, materials, work performed, work in progress, products and merchandise and can in addition to data expressed in a monetary unit of measure contain data expressed in non-monetary units of measure and also to receivables, liabilities and investments. An organisation is free to decide which types of analytical records to keep with respect to its own needs and organisational structure and any external regulations.

2.8 The general ledger shall be kept on the principle of double-entry bookkeeping.

(b) System of Accounts in the Books of Account

2.9 The economic categories expressed in a monetary unit of measure and monitored in financial accounting and in cost accounting are recorded by accounts. The chart of accounts may refer either to the general ledger or to subsidiary books of account; it is used not only in bookkeeping, but also in budgeting, accounting supervision and accounting analyses.

2.10 The chart of accounts for the general ledger is designed on the basis of the framework chart of accounts prepared by the Slovenian Institute of Auditors with the view of ensuring a uniform basic set up of accounts with all organisations. An organisation is then free to decide on detailed classification of accounts to meet its own specific needs.
The chart of accounts contains a list of general ledger accounts comprising both balance-sheet and off-balance-sheet items. Each account on the list has its own code, title and contents. Account codes are determined on the basis of decimal classification system (0–9), denoting as follows:

- classes of accounts from 0 to 9,
- groups of accounts from 00 to 99,
- main accounts from 000 to 999, and
- subaccounts from 0000 to 9999, and so forth.

The account title in the chart of accounts of an organisation shall be short and concise, clearly denoting its contents; if the account is subclassified, it shall be appropriately titled according to the relevant headings of the balance sheet and income statement, respectively, and in relation with the needs of the organisation.

2.11 The accounts of the organisation’s chart of accounts shall comply with the prescribed chart of accounts and shall enable direct entry in the balance sheets and income statement items, and their further breaking-down or monitoring of entries therein, and entry in the statement of changes in equity and cash flow statement. However, the chart of accounts does not contain specific accounts that would allow direct recording of items in the cash flow statement.

2.12 An organisation shall keep its books of accounts in accordance with a chart of accounts which it shall draw up on the basis of an appropriate chart of accounts. In designing its own chart of

accounts, an organisation may base its chart of accounts on the recommended Uniform Chart of Accounts issued by the Slovenian Institute of Auditors.

(c) Entries in the Books of Account

2.13 Keeping of a general ledger is mandatory, while keeping of subsidiary books of account shall be mandatory only if credible data that are usually obtained from subsidiary books cannot be provided otherwise. A legal or natural person may be entrusted with the keeping of the books of account. Entries in the books of account shall be made on the basis of credible bookkeeping documents excluding any off-setting of economic categories, whereas the general ledger shall show the financial position of the organisation and its profit or loss.

Books of account shall be kept in the Slovenian language and in euro for organisations established under the laws of the Republic of Slovenia.

When the books of account of a business unit of a Slovenian organisation abroad are kept abroad, the data from these books shall be submitted to the reporting Slovenian organisation at least on the last day of each financial year. The minimum scope of those data shall be equal to the scope corresponding to the items of the financial statements under the SASs. In the case of any differences between the SASs and the regulations of the state in which the organisation is located, the items to be entered in the reporting organisation's books of account shall be translated and presented in accordance with the SASs. Any amounts denominated in foreign currencies shall be translated into euro at the European Central Bank's reference rate, but for justified reasons, the relevant commercial bank rate effective on the last day of the period for which the data are presented may also be used for receivables and liabilities.

Entries in the books of account shall be made in a chronological order and shall be systematic, complete, correct and up-to-date.

Before a new (correct) entry is made, the incorrect entries and amounts shall be reversed, as appropriate. The reversal may only be made in a traceable manner, so that the original entry and the entry of the correction are visible after the change. Application programmes which in any way allow deleting of entries already made without a proper audit trail are not in compliance with the Recommended Accounting Rules.

2.14 The general ledger may be a single ledger or may consist of several ledgers for each group of accounts. The general ledger shall be used to record all transactions, including those which are the subject of an off-balance-sheet record. The general ledger shall make it possible to control the entries made under the following formula: the sum total of all debit entries equals the sum total of all credit entries. It thus contributes to the reliability of the general ledger as a source of data for the preparation of the balance sheet and the income statement, as well as for individual bookkeeping information.

Bookkeeping data on business events shall be entered in the computerised books of account in a chronological order and stored in files (computerised journal). In such circumstances, the general ledger may be merged with subsidiary books, provided that the entries are made only once. An original entry in a computerised journal may, under specific circumstances, replace a paper-based bookkeeping document. The organisation shall specify in its general act when the computerised journal is to be printed. The computerised journal shall be considered to be printed even if it is written in an electronic form and stored in accordance with the relevant archiving rules.

2.15 The section of the general ledger which contains the balance sheet and the income statement items is used to process and keep the data associated with transactions and business events involving a change in the assets, liabilities, revenue and expenses of the entity in terms of quality and quantity. Bookkeeping deals with data relevant to the transactions or business events:
- that took place as part of past operations,
- whose effects may be expressed in a monetary unit of measure,
- that have caused changes in items of assets, liabilities, revenue and expenses, and
- that are presented in credible bookkeeping documents.

Off-balance-sheet records of the general ledger shall include transactions that do not directly affect the items in the balance sheet and/or the income statement, but are significant for the evaluation the use of foreign assets and for the evaluation of contingent liabilities and assets and for the control of business processes and information. Items included in the off-balance sheet record of the general ledger may be extinguished or may assume new quality attributes, and even affect items in the balance sheet and income statement.
Business events recorded in the off-balance-sheet record do not affect items in the balance sheet and/or income statement when they occur. Nevertheless, they shall be recorded in credible bookkeeping documents. Items from off-balance-sheet records shall be included in the balance sheet, but only after the sum total of the balance sheet items.

2.16 The format of the general ledger depends on the technique and the method of entering bookkeeping data in it.

When computers are used to keep the general ledger, verified application programmes shall be used which make it impossible to delete or change validated entries in the books of account at a later date. Bookkeeping data entered in a computerised journal shall be automatically classified into the relevant accounts in the data files. Data are entered in the computerised general ledger at one or more locations in which business events have occurred. When data are entered in a number of locations, the application programmes shall provide for identification of bookkeeping documents and persons responsible. At all times, a computerised general ledger shall provide an adequate audit trail to allow subsequent entry controls as well as the display of any account and/or the entire general ledger on the screen or as a paper printout at any time.

2.17 An organisation shall specify in its general act the manner in which subsidiary books of account are to be kept. Each initial entry in the computerised subsidiary books of account shall be supported by a credible bookkeeping document, including documents in electronic form and documents received electronically, thereafter, the data shall be processed automatically, without manual intervention. Data may be entered in a subsidiary book of account from one or more locations. They shall be entered simultaneously in the analytical records and in the general ledger accounts. Computerised subsidiary books of account shall allow entry control at any time and current reconciliation to the relevant general ledger accounts as well as presentation of any account and/or the entire subsidiary book of account on the screen or as a paper print out.

A specific cashbook and a register of property, plant and equipment shall be kept separately irrespective of other analytical records.

2.18 Books of account shall be opened and closed off every financial year. The general ledger shall be opened for the items of assets and liabilities on the basis of the opening balance sheet of the financial year under review, which shall be equal to the closing balance sheet of the previous financial year. Items of assets and liabilities not included in the opening balance sheet shall be opened in the general ledger during the year when the events giving rise to them take place and on the basis of the adequate bookkeeping documents. The same applies to the opening of cost, expense, revenue and profit or loss accounts.

Subsidiary books of account shall be opened by entering the closing balances of the analytical accounts of the subsidiary books of account from the previous financial year. During the year, new analytical accounts shall be opened on the basis of the bookkeeping documents about transactions. The exceptions are the register of property, plant and equipment and the analytical accounts of property, plant and equipment, the opening and closing of which are not linked to the financial year. These books of account are open and kept as long as the property, plant and equipment exist in the organisation.

After all the entries for the financial year have been made and the balances recorded have been controlled, the books of account shall be closed so that no further entries can be made or the data entered can be altered.

(d) Storage of Books of Account

2.19 An organisation shall specify in its general act the manner in which books of account will be stored.

Once the annual financial statements have been audited, if the audit is required by law, or the annual financial statements have been adopted, the books of account, properly organised and closed, shall be archived. In principle, the general ledger shall be stored forever. However, considering the relevant laws and regulations, an organisation is free to decide whether books of account will be kept in paper form or on an electronic or micrographic carrier.

C Key Definitions

2.20 These Rules use some terms which need to be explained in order to define the key concepts.

(a) The **general ledger** comprises accounts associated with assets, liabilities, revenue and expenses, and off-balance-sheet records. Some items are recorded in main accounts and in adjustment accounts, if required by SASs.

(b) The **journal** is a record in which data are kept in a chronological order.

(c) **Subsidiary books of account** are analytical records and other subsidiary books of account.

(d) **Reversal of an entry** shall be carried out in the books of account by cancelling the initial incorrect entry with a reversing entry of equal amount on the same side of the account, whereupon the correct amount is posted to the proper accounts (in order to achieve correct movements in the relevant accounts).

(e) **Analytical records** comprise subaccounts explaining the main accounts of the general ledger, such as a register of property, plant and equipment, of materials, products, customers, suppliers, etc.

(f) **Other subsidiary books of account** generally supplement the accounts of the general ledger; they include, for example, a cashbook, a book of received invoices, a due bills register, a register of shares, and other books as required by the organisation.

D Clarifications

2.21 Books of account are records providing data required to obtain information about the balance and movement of assets and liabilities, costs, expenses and revenue, cash receipts and disbursements, profit or loss, and information about the financial position of an organisation. Under principles of systematic approach and timeliness, opening balances and changes caused by business events are entered in books of account. Different methods and technical devices may be used to this end; however, all of them shall enable checking of the entries, and allow for the storage and use of data.

The method of keeping books of account should give them the character and power of legal documents.

2.22 Entries in the general ledger and subsidiary books of account shall be made in such a way as to show the chronological sequence of transaction entries in the books of account (posting journal) and changes in assets and liabilities, grouped together in appropriate accounts.

An organisation may replace the general ledger by two general books of account which simultaneously monitor changes in assets and liabilities, revenue and expenses, grouped by individual accounts (account cards) and by the time sequence of transaction entries in the books of account (posting journal). The provision of general ledger data by two main books of account shall be specified by the organisation in its general act.

In the case of computerised posting, the application programme shall provide a time sequence and account-by-account overview as well as an overview of the general ledger and subsidiary books of account. However, in the case of manual and semi-automatic posting, changes shall be entered separately in the general ledger and in the corresponding subsidiary book of account.

2.23 Based on the chart of accounts, the organisation shall draw up its chart of accounts independently. It shall include the items for the balance sheet and the income statement provided for by the standards, broken down according to its needs, taking into account its organisational structure and the foreseen requirements for accounting data and information also of the components of the organisation.

E Date of Adoption and Effective Date

2.24 These Rules were approved by the Council of Experts of the Slovenian Institute of Auditors at its session held on 11 December 2015. Organisations whose financial year is identical with a calendar year shall apply these Rules for periods beginning 1 January 2016, while other organisations shall first apply them for the financial year beginning after this date.

From the date on which these Rules come into effect, organisations shall cease to apply SAS 22 – Books of Account (2006).

Recommended Accounting Rules 3 (2016)

COSTS BY TYPE, CENTRE AND UNIT

A Introduction

These Rules apply to the bookkeeping of, accounting for and disclosure of costs within cost accounting. Results may be used within financial accounting and when preparing financial statements for the needs of external reporting. They deal with:

(a) the classification of costs by cost centre and cost unit,
(b) the recognition of costs by cost centre and cost unit,
(c) the initial measurement of costs by cost centre and cost unit,
(d) the revaluation of costs by cost centre and cost unit, and
(e) the disclosure of costs by cost centres and cost units.

These Rules rely on general accounting theory and relate specifically to Slovenian Accounting Standards (SASs) 1 and 2, 12–14, and 21.

These Rules (Section B) shall be read in the context of key definitions (Section C), clarifications (Section D), the Introduction to the Slovenian Accounting Standards (2016) and the SAS Framework.

B The Rules

(a) Classification of Costs by Cost Centre and Cost Unit

3.1 Within financial accounting, costs shall be classified on initial recognition into primary types: (a) costs of materials; (b) costs of services; (c) depreciation and amortisation expense; (d) labour costs; (e) taxes, levies and charges that are independent of profit or loss and are not associated with costs under (a) to (d); sometimes also with (f) costs of financing . Costs do not include losses on impairment of assets, which shall be carried and accounted for as revaluation expenses and add to ordinary expenses. Input value added tax that the organisation claims to reduce its tax liability shall not be considered costs of taxes, levies and charges, and input value added tax that the organisation does not claim, or other charges that are levied together with the costs, increase each of the original cost types.

3.2 Costs by primary types shall be allocated to cost centres, which allow at least for a separate monitoring of production costs, purchasing costs, selling costs and costs of general and administrative services, as well as for a subsequent separate determination of costs by business and geographical segments and of expenses associated with discontinued operation. The number of cost centres in an organisation shall reflect its size, organisational structure, specific features of production or operation, the selected method used for the allocation of costs to products and services, and the forms of controls. Cost centres shall be determined on the basis of the full cost approach to products and services and shall ensure recording of any movement of costs within specific areas of responsibility for the costs incurred and for the business process as a whole. An organisation is free to decide whether or not costs of financing shall be included in this allocation of costs.

3.3 Costs by primary types may be either direct or indirect costs of the identified cost centres; however, these costs cannot yet be allocated to the cost centres on the basis of original documents. Costs accumulated in different cost centres are costs already recognised under functional groups.

3.4 Costs by primary types shall be allocated to cost units. The number of cost units should be adjusted by the organisation according to the fact, whether it is engaged in a mass or process activity or, to the contrary, in a low-series (batch) or job order activity. Costs by purpose (functional) group may be direct or indirect costs of individual cost units. Considering costs of financing in such allocations depends on decisions made within the organisation, or, in the case of allocating costs for financial accounting purposes, on the solutions in SAS 4.

3.5 To facilitate the planning and subsequent analysis of costs by primary type, an organisation may decide to allocate them to their fixed and variable components once they have been allocated to cost centres and cost units.

3.6 In establishing cost centres and cost units, the requirements that arise in determining profit or loss by business and geographical segment and area should be taken into account.

(b) Recognition of Costs by Cost Centre and Cost Unit

3.7 Costs shall be recognised by cost centre and cost unit according to where and why they are incurred.

3.8 Direct costs of purchasing shall be recognised in the increased cost of inventories, or of property, plant and equipment; therefore, they are not dealt with in these Rules. Direct selling costs shall be recognised exclusively in the costs of products, merchandise and services sold.

3.9 Any other costs shall be recognised by cost centre and cost unit, at least with regard to the requirements arising from the selected method of valuation of work in progress and inventories of products, and with regard to creating business and geographical segments or a part of discontinued operations.

(c) Initial Accounting Measurement of Costs by Cost Centre and Cost Unit

3.10 Direct costs of a final cost unit may already be costs of a primary type (for example, direct costs of materials or direct labour costs) or costs of a temporary product or service incurred by an transitory cost centre that is directly involved in the manufacturing of the final cost unit, and hence the need for a separate treatment of its indirect costs is considerably lower. However, such possible solutions in cost accounting are not decisive for financial accounting and for the preparation of financial statements for external reporting purposes.

3.11 With regard to cost accounting requirements, either all costs (other than direct costs of purchasing), costs included in contracted full costs, or only production costs in the narrower or broader sense, or only the variable portion of operating costs can be allocated to products and services as cost units of the accounting period. The selection of method used to allocate costs to products and services of the accounting period depends on whether the purpose of costing is to obtain a basis for valuation of inventories of products or work in progress, or conversely, a basis for pricing or judging selling prices or other business decisions.

3.12 In addition to the need to allocate operating costs specified in items (a) to (d) under RAR 3.1 to cost units, occasionally the need also arises in an organisation to allocate costs of financing (see item (f) under RAR 3.1), specifically the costs of interest paid; an organisation is free to decide on this issue.

3.13 Components of full cost pricing applied for a cost unit of a low batch production or job order activity are:

(a) direct costs of materials,
(b) direct labour costs,
(c) other direct costs,
(d) indirect production costs in a narrow sense (costs of generating products and services),
(e) indirect purchasing costs,
(f) indirect selling costs,
(g) indirect costs of general and administrative services,
(h) indirect costs of financing, and
(i) direct selling costs.

Depreciation and amortisation expense is included in indirect functional costs or other direct costs. If an organisation is involved in trading activities, the component under (a) is considered the cost of merchandise and the components specified under points (b) to (i) may be merged into trading costs.

3.14 When products and services are valued at full cost less interest, the components under (h) and (i) in RAR 3.13 shall be excluded; when products and services are valued at production cost in a broader sense, the components from (f) to (i) shall be excluded; when products and services are valued at production cost in a narrower sense, the components from (e) to (i) shall be excluded; and when products and services are valued at variable costs, the fixed components of costs specified under (c) to (h) shall be excluded; in addition, the component (i) may be disregarded if the method is applied to determine the value of current inventories.

3.15 The calculation of costs under RAR 3.12 or 3.13 may be carried out either as budget costing on the basis of budgeted amounts or as cost calculation on the basis of actual amounts. For certain business decisions some special elements of costing also need to be taken into account, such as opportunity costs or other costs which otherwise are not directly recorded in the bookkeeping documents.

3.16 Estimated costs are used both for cost budgeting and, in certain cases, for recording the actually incurred costs (accrued costs of ullage and breakage). Standard costs, on the other hand, are primarily applied as a starting point in analysing cost variances. Estimated costs and standard costs may refer either to a unit of products and services or to an entire activity of the accounting period.

(d) Revaluation of Costs by Cost Centre and Cost Unit

3.17 The costs shown in records do not include revaluation operating expenses associated with impairment of property, plant and equipment, of intangible assets, and associated with revaluation of inventories and receivables to their low net realisable or collectable amount. If these costs, as is the case of interest, were included for the sake of a more complete calculation, they could, on the basis of the estimated amount, be treated as indirect production costs (excluding receivables write-off) or as indirect selling costs (receivables write-off), or even as a separate item, similar to interest. Such an item may be referred to as indirect costs of operating write-offs.

3.18 Revaluation expenses associated with the revaluation of investments shall not be treated operating expenses; therefore they shall not be taken into account in the same way as those dealt with in RAR 3.17.

(e) Disclosure of Costs by Cost Centre and Cost Unit

3.19 As the issues dealt with under these Rules are in many ways associated with business secrets, an organisation shall only disclose the methods applied to identify costs used in the valuation of both the inventories of products and work in progress, as well as in determining costs by business and

geographical segments, and a part of an organisation which is in the process of discontinuing its operations.

C Key Definitions

3.20 These Rules use some terms which need to be explained in order to define the key concepts.

(a) **Costs of materials** are the original costs of materials purchased and directly consumed in generating products and services (direct costs of materials), as well as the costs of materials that do not have this character, but are included in the functional group of indirect costs. The former subgroup comprises the costs of raw materials, other materials, purchased components and semi-finished products whose consumption may be associated with generating products and services. The latter subgroup comprises costs of auxiliary materials required in the maintenance of property, plant and equipment, except for subsequent investments in property, plant and equipment, small tools with useful life not exceeding one year and unit value of less that EUR 500, as well as of spare parts required in after-sales service activity, of office supplies, technical literature and others. Costs of materials shall also include accrued costs of ullage, spillage, breakdown, and breakage. According to SAS 12, prices effective in the period in which these quantities are consumed shall be applied to establish their costs. In a broader sense, the costs of materials are equal to the cost of merchandise sold and materials.

(b) **Costs of services** are the original costs of services purchased and directly used in generating products and services (costs of direct services), as well as the costs of services that do not have this character, but are included in the functional groups of indirect costs. The former subgroup particularly comprises the costs of services associated with generating products, whereas the latter subgroup primarily comprises costs of transportation, maintenance, trade fair services and advertising services, entertainment costs, insurance premiums, costs of payments services and other banking charges (other than interest), rentals, consulting services, business trips and similar services.

(c) **Depreciation and amortisation expense** is the original costs associated with the systematic allocation of the amount of depreciable property, plant and equipment and of amortisable intangible assets under SAS 1. By way of exception, depreciation and amortisation expense may be recognised as direct costs incurred in generating products and services; however, in a majority of all cases they do not have this character and shall be included in the relevant functional groups of indirect costs. They shall be recognised at prices effective in the accounting period.

(d) **Labour costs** are the original costs associated with accrued gross wages and salaries and similar amounts, as well as taxes and contributions levied on this basis, which are not part of gross amounts. Detailed labour costs are determined in SAS 13. These costs may directly be charged against the emerging products or services (direct labour costs) or their character may be that of indirect costs, in which case they shall be included in the relevant functional groups of indirect costs.

(e) **Cost of financing** are mostly costs of interest paid.

(f) **Other direct costs as the component of full cost** are all direct costs incurred by cost units, other than direct costs of materials or direct labour costs; in addition to original costs they may comprise the costs of self-constructed semi-finished products or components. An organisation is free to decide whether the same treatment will be applied internally for the costs of interim cost units associated with internal services provided by the manufacturing, purchasing or sales departments, or by general and administrative services, when accounting for these costs on the principle of activity-based (process-based) costing; whenever the costs of final cost units are determined by comparing

organisations, they shall be presented as indirect costs irrespective of the method through which they were established.

(g) **A cost centre** is a comprehensive unit of an organisation in functional, physical or material terms within which, or in association with which, costs are incurred during the organisation's operation; the costs may be allocated to specific interim or final cost units, and there is always somebody that is accountable for the costs.

(h) A responsibility centre is a unit within the hierarchy of an organisation; it is occupied by a holder of responsibility that is not responsible only for the costs incurred by the responsibility centre, but also for the costs incurred by the subordinated responsibility centres.

(i) **A cost unit** is a product or service in association with which costs are incurred and to which the costs shall be assigned. A cost unit may be a total quantity of identical or similar products and services of the accounting period or a set of them, an individual product or a service, as well as a portion of it. The products and services held for sale or for integration into the organisation's property, plant and equipment are considered final cost units. The products and services that are intended to generate product and services (semi-finished products, components, various internal services etc.) may also be treated as interim cost units.

(j) **Marginal costs** are variable costs and the difference in fixed costs resulting from the shift to a new scope of activity.

(k) **Opportunity costs** measure the value of the opportunity that is lost when the second best choice of action has been given up. Opportunity costs are usually measured by the operating profit or loss that would have been generated by the second best choice, or by the difference between the foregone revenue and the avoidable costs or expenses incurred had the second best choice been accepted.

(l) **Cost variability rate** is the ratio of the variable portion of a type of costs to the total amount of the same type of costs at a given scope of activity.

(m) **Variability ratio** is the ratio of the change in costs to the change in the scope of activity.

(n) **Actual costs** are results of actually consumed quantities multiplied by actual prices, whereas estimated costs are established on the basis of estimated quantities and/or estimated prices.

(o) **Standard costs** are results of theoretically justified consumed quantities multiplied by theoretically justified prices.

D Clarifications

3.21 Costs of provisions are not a separate original cost type. Provisions are accrued expenses, which are generally costs of services or costs of labour in nature, accounted for present obligations that arise from obligating past events and are expected to be settled within a period that is not certain, and the amounts to settle which can be estimated reliably.

3.22 The breakdown of costs into fix and variable components is crucial in the cost budgeting process, even though various methods are used on the basis of the actually incurred costs to break them down into their fixed and variable portions. Individual original types of costs or specific functional groups, such as direct costs, indirect production costs, indirect costs of general and administrative services and others may be broken down into their fixed and variable components. An individual original type of costs or a group of functional costs may either be exclusively variable by nature, or exclusively fixed,

or as in most cases, may be mixed by nature. The nature of the cost item is defined by cost variability rates (variators), where rate 1 indicates a full cost variability, rate 0 indicates a full invariability of cost, and rates between 1 and 0 indicate costs of mixed variability and/or invariability. In some primary types of costs or functional groups of costs the variability rate depends on the scope of operations and may change due to changes in the scope of operations, despite stability of all other circumstances.

Variable costs are usually construed as proportional costs, while fixed costs are considered absolutely fixed costs, yet exceptions to the rule should be considered whenever these distinctions are made. Some variable costs may, on a temporary basis, become fixed costs as the result of a decreased scope of operations.

3.23 The breakdown of costs into fixed and variable ones assumes their behaviour under circumstances of unchanged prices. Therefore, cost data from previous periods shall be expressed in terms of individual prices in one of these periods before any breakdown of costs. When determining the fixed portion of costs, special attention should be paid to the amounts that may during specific periods have been the result of the specific decisions made in the periods (for example, an advertising campaign) and that are not associated with the definition of the facilities and capacities available in those periods. For this reason, it may be more appropriate to define fixed costs as the costs of the period, and not the capacity costs. The variable costs, on the other hand, are always the costs of generating products and services, and will not be incurred unless the activity has been undertaken.

3.24 The breakdown of costs may be based on empirical methods: the method of estimated fixed-to-variable cost ratio, the method of estimated cost variability rates, and other methods. When a large body of data is available about past transactions, a variety of mathematical methods may also be applied, including: the calculation of changeability ratio, the mathematical interpolation method, the marginal cost method, the graphical method, and the regression equation method. The conditions to be met for the use of mathematical methods (and the assumptions on which they are based) are:

(a) the costs determined at different scopes of activity include the fixed prices of the business process components;
(b) total fixed costs associated with different analysed scopes of activity remain equal; and
(c) total variable costs change in proportion to the scope.

The breakdown of costs into fixed and variable costs makes it possible to predict their movement at different scopes of activity. When forecasting, it should be borne in mind that the reliability of such forecasts decreases as we move away from the scopes used to break-down costs into fixed and variable ones.

3.25 Cost centres occur in the context of core, ancillary and subsidiary production activities, as well as in the context of purchasing, selling and general activities. If there are several cost centres within each of these activities, a distinction should be made between core and general cost centres.

3.26 Realized costs are allocated to cost centres on the basis of the bookkeeping documents on their occurrence. Some costs can be allocated to cost centres directly on the basis of the bookkeeping documents, others only on the basis of cost distribution vouchers. Other factual data (for example, to distribute depreciation and amortisation expense) may serves as cost distribution vouchers or are the basis for other relationships that have a causal relationship with the costs.

3.27 Realised costs allocated to cost centres and their transfers from one cost centre to another can be shown in the cost allocation worksheet. Similarly, budgeted costs can be shown in a budget cost allocation worksheet. The former (the cost allocation) worksheet shows the realised indirect cost

allowance rates and the latter (the budgeted cost allocation) worksheet shows the budgeted indirect cost allowance rates.

3.28 A method of equations and other methods may be used to determine the relationships between interdependent cost centres. The method of equation system used to allocate costs to interdependent cost centres is based on the setting up and solving linear equations; there are as many equations as there are cost centres. Each equation shows the way in which total costs of a separate cost centre is made up of the initial costs and a specific percentage of total costs of each other cost centre. The number of equations equals the number of unknowns that represent the sum total of the costs incurred by individual cost centres.

3.29 The allocation of costs to responsibility centres differs from the allocation of costs to cost centres in that the responsibility for costs does not appear at one level only, given the hierarchy of responsibilities. The holder of responsibility at each responsibility centre is therefore required to know the budged and realised costs for which they are directly responsible, as well as the costs that originally occur at subordinate centres and for which the responsibility holders at those centres are directly responsible. The only difference is that, at each responsibility centre, the costs of the first group are broken down in detail, while the costs of the second group are presented in aggregate for each of the subordinate responsibility centres.

3.30 In the case of a mass or process activity, a partition calculation is applied which takes into account the finished and unfinished quantity at each stage of production, the integration of materials into the process and other total processing costs by stage, but may also calculate products and services by equivalence coefficients or other methods if products and services are not uniform. In the case of low-volume (batch) or individual job order activity, a calculation with allowances is used, which takes into account all types of direct costs, the quantities of finished and unfinished products and the allowance factors for indirect costs of each type or at each cost centres.

3.31 When all costs incurred in an accounting period are allocated to all products and services as cost units of the accounting period, the full cost per unit of a product or a service has been determined. The difference between the selling price and the full unit cost is defined as the profit per unit. When all costs incurred in an accounting period, except interest costs, are allocated to all products and services as cost objects of the period, the full unit cost without interest has been determined. The difference between the selling price and the full unit cost without interest is defined as the expanded unit profit. When production costs only are allocated to all products and services of an accounting period, the production costs per unit of product or service have been determined. The difference between the selling price and the production costs is defined as the gross profit per unit of product or service. When variable costs only are allocated to all products and services of an accounting period, only variable costs are charged against a unit of product or service. The difference between the selling price and the variable costs of the unit is defined as the contribution margin of the unit of products and services.

In the first two allocation cases, the selling costs may only be included in the cost that are charged against products and services sold; this means that the full cost or the full cost without interest of the finished goods that have not yet been sold or of the work in progress cannot be discussed. Furthermore, the interest costs shall normally only be charged against goods sold; but, when the profit or loss of the organisation as a whole is determined, they shall be recognised under components of financial expenses rather than operating expenses.

All costs that have not been allocated to cost units, become expenses immediately and affect the profit or loss of the accounting period in which they have been incurred; when the method of full cost unit without interest is used, this applies to interest that was not allocated to cost units; when the

method of production costs in a broader sense is used, this applies to selling costs and costs of general and administrative services; and when the variable cost method is used, this applies to fixed costs.

3.32 Standard costs may be divided into basic standard costs, current, ideal, real, and normal standard costs. Basic standard costs apply to a longer-term period, regardless of the circumstances under which an organisation operates during an accounting period. Current standard costs apply to the circumstances under which an organisation operates during the current accounting period. Ideal standard costs apply to ideal circumstances, ignoring the weaknesses or obstacles that may be anticipated during a specific accounting period and might easily impair the objectivity of the standards set. Contrary to ideal standard costs are normal standard costs set on the basis of normal circumstances, i.e. the circumstances prevailing in the past, with possible minor modifications. When determining real standard costs, an organisation shall consider the weaknesses and the obstacles as well as the benefits it may anticipate or foresee on the basis of past accounting periods. Most organisations apply current and real standard costs.

E Date of Adoption and Effective Date

3.33 These Rules were approved by the Council of Experts of the Slovenian Institute of Auditors at its session held on 11 December 2015. Organisations whose financial year is identical with a calendar year shall apply these Rules for periods beginning 1 January 2016, while other organisations shall first apply them for the financial year beginning after this date.

From the date on which these Rules come into effect, organisations shall cease to apply SAS 16 – Costs Classification by Types, Centres and Units (2006).

Recommended Accounting Rules 4 (2016)

TYPES OF PROFIT OR LOSS AND OF NET CASH INFLOW OR OUTFLOW

A Introduction

These Rules regulate the types of profit or loss and of net cash inflow or outflow. They apply to the bookkeeping of, accounting for and disclosure of different types of profit, net profit and loss as well as of net cash inflow or outflow (net receipts / net disbursements) of different types. They deal with:

(a) the classification of profit or loss and of net cash inflow or outflow,
(b) the recognition of profit or loss and of net cash inflow or outflow,
(c) the initial measurement of profit or loss and of net cash inflow or outflow,
(d) the revaluation of profit or loss and of net cash inflow or outflow, and
(e) the disclosure of profit or loss and of net cash inflow or outflow.

These Rules primarily rely on Slovenian Accounting Standards (SASs) 5, 9, 12 – 16, and 21 and the Recommended Accounting Rules (RAR) 3.

The Rules (Section B) shall be read in the context of key definitions (Section C), clarifications (Section D), the Introduction to the Slovenian Accounting Standards and the SAS Framework (2016).

B The Rules

(a) Classification of Profit or Loss and of Net Cash Inflow or Outflow

4.1 Profit or loss is the difference between revenue and expenses in an accounting period. In profit-making organisations, the excess of revenue over expenses is profit and the excess of expenses over revenue is loss; in non-profit-making organisations, the difference between revenue and expenses is referred to as surplus revenue or surplus expenses.

Net cash inflow or outflow (net receipts or net disbursements) is the difference between cash receipts and payments (disbursements) during an accounting period.

4.2 There are basic and other types of profit or loss. The basic types of profit or loss are the following: profit or loss from sales, operating profit or loss, profit or loss from ordinary activities, total profit or loss, and net profit or loss.

Other types of profit or loss comprise contribution margin, gross operating profit or gross operating loss, gross profit or loss from sales, total profit or loss increased by amortisation / depreciation and interest expenses, operating profit less adjusted taxes, total profit or loss including interest expense, and value added (revenue). They are important for internal users, mainly as a data basis for accounting analyses.

4.3 There are basic and other types of cash inflow or outflow. The basic types of net cash inflow or outflow are the following: net cash inflow or outflow (net receipts or net disbursements) from sales, net cash inflow or outflow from operating activities (net receipts or net disbursements), net cash inflow or outflow (net receipts or net disbursements) from investing activities, net cash inflow or outflow (net receipts or net disbursements) from financing activities, and total net cash inflow or outflow (total net receipts or total net disbursements).

4.4 In accordance with internal and external needs, the selected type of profit or loss and of net cash inflow or outflow (net receipts or net disbursements) may be further broken down into profit or loss, or into net cash inflow or outflow, of separate business and geographical segments or other organisational units.

(b) Recognition of Profit or Loss and Net Cash Inflow or Outflow

4.5 Profit or loss shall be determined in the bookkeeping records and financial statements by comparing the relevant recognised revenue and expenses.

4.6 Net cash inflow or outflow (net receipts or net disbursements) shall be determined in bookkeeping records and financial statements by comparing the relevant recognised cash receipts and payments (disbursements). An excess of cash receipts over disbursements is net cash inflow, and an excess of disbursements over receipts is net cash outflow.

(c) Initial Measurement of Profit or Loss and of Net Cash Inflow or Outflow

4.7 Profit or loss from sales is the difference between sales revenue and sales expenses. Operating profit or loss is the difference between operating revenue and operating expenses; it differs from the profit or loss from sales in that it also contains other operating revenue and operating expenses, such as revaluation operating revenue and revaluation operating expenses.

Profit or loss from ordinary activities is the difference between the sum of operating and financial revenue and the sum of operating and financial expenses.

Total profit or loss is the difference between the sum of all revenue and the sum of all expenses.

Net profit or loss is the difference between the total profit or loss, income tax payable as the state's share in profit, and deferred taxes. This is the profit or loss left at the disposal of the organisation after the current tax has been deducted and the accrued or deferred taxes have been added or deducted.

Total comprehensive income is the change in equity during the period, excluding those arising from transactions with owners. It can be divided into net profit or loss for the accounting period and other comprehensive income for the period. Total comprehensive income therefore comprises:

(a) net profit or loss for the period;

(b) changes in revaluation reserves arising from the revaluation of intangible assets;

(c) changes in fair value reserve on available-for-sale financial assets;

(d) gains and losses arising from the translation of the financial statements of foreign operations (translation differences);
(e) other components of comprehensive income.

4.8 Contribution margin as expanded profit or loss from sales is the difference between sales revenue and variable costs of goods sold. If it is reduced by fixed costs in quantities sold and other operating expenses, and increased by other operating revenue, the operating result (profit or loss) is obtained. Alternatively, the organisation's contribution margin from sales can be used to cover fixed costs gradually, by deducting them progressively in sequence from those that are direct at the level of individual products, through those that are direct at higher levels of activity (e.g. product groups, cost centres, areas of activity), to fixed operating costs that are direct only at the level of the organisation as a whole.

Gross profit or gross loss is the difference between net sales revenue and the production cost of goods and services sold or the cost of merchandise sold. When gross profit or loss is increased by other operating revenue, the gross operating profit or loss is obtained. Gross operating profit or loss is the difference between operating revenue and the production costs of goods and services sold plus the cost of merchandise sold; the expense side also includes the corresponding portion of revaluation expenses. It shall also cover the indirect costs of purchasing (if not included in the production costs), the direct and indirect selling costs and the indirect costs of general services, which also include the relevant portion of revaluation expenses, and only the difference is the operating profit or loss.

Total profit or total loss plus interest expense as an expanded total profit or loss is the difference between the sum of all revenue and the sum of operating, other and financial expenses, excluding interest expense.

Total profit or loss increased by amortisation or depreciation and interest expense (or net profit/loss plus depreciation or amortisation, interest expense and taxes) is the difference between the sum of total revenue and the sum of total expenses, excluding depreciation or amortisation and interest expense. From operating profit or loss increased by depreciation or amortisation, the profit or loss determined in this way shall be distinguished by any financial and other revenue, other expenses and that portion of financial expenses not relating to interest.

Operating profit or loss less adjusted taxes is the difference between operating revenue and operating expenses less taxes calculated on the basis of the difference obtained.

Value added (revenue) is the difference between the sum of total revenue and the sum of total expenses, excluding wages and salaries and allowances due to employees under operating expenses, excluding interest and other remuneration due to lenders and creditors under expenses, and excluding taxes due to the state. This is the profit or loss to be shared with:

(a) the employees by salaries and reimbursements;
(b) the lenders and creditors with interest and other remuneration;
(c) the owners through dividends and other types of compensation;
(d) the organisation through the creation of reserves and retained earnings;
(e) the state through taxes.

4.9 Net cash inflow or outflow (net receipts or net disbursements) from operating activities is the difference between operating receipts and operating disbursements.

Net cash inflow or outflow (net receipts or net disbursements) from investing activities is the difference between cash receipts from disinvestments and disbursements for investments.

Net cash inflow or outflow (net receipts or net disbursements) from financing activities is the difference between cash receipts from financing and disbursements for financing.

Total net cash inflow or outflow is the difference between all cash receipts and all disbursements.

4.10 When determining profit or loss or net cash inflow or outflow by business segments and geographical segments, or by other organisational forms, the data required for the calculation should be limited.

4.11 A special type of profit or loss in public limited companies is diluted net profit or loss for ordinary shares. It is reduced from total net profit or loss by the portion attributable to preference shares and adjusted for the after-tax effect of any dividends on potential ordinary shares, interest recognised during the accounting period on potential ordinary shares and any other changes in revenue or expenses arising on the conversion of potential ordinary shares.

(d) Revaluation of Profit or Loss and of Net Cash Inflow or Outflow

4.12 In each case, profit or loss includes, as a result of revaluation revenue and revaluation expenses, the changes in the original carrying amounts of revenue and expenses accounted for using the usual methods.

4.13 Profit or loss before tax (total profit or loss) is only an accounting profit or loss which, as a rule, differs from the taxable profit or loss (tax base) in the same financial year and is determined in

accordance with tax regulations. Certain differences between an accounting profit or loss and taxable profit or loss are permanent in nature because, under tax rules, items that are treated as expenses may be included in the tax base or, under tax rules, the tax base may be reduced by items that are not expenses. However, temporary differences are relevant for revaluation when a taxable profit is recognised in another financial period as an accounting profit. In order to ensure that the net profit nevertheless bears a meaningful relationship to the profit before tax, i.e. to the accounting profit determined in accordance with Slovenian Accounting Standards, a revaluation of income tax for deferred tax amounts is introduced. Tax expense (tax revenue) is the amount that affects net profit or loss for a period and includes both accrued and deferred tax. Tax expense is not an expense within the meaning of SAS 14. Tax revenue is not revenue within the meaning of SAS 15. Net profit or loss is the difference between total profit or loss and tax expense (tax revenue) as the sum of accrued and deferred tax.

4.14 Tax expense has primarily the following components:
(a) the amount of the tax expense arising from the tax charged;
(b) the aggregate amount of newly recognised and derecognised deferred tax assets and deferred tax liabilities that affect deferred tax expense (revenue);
(c) the difference in deferred tax expense (revenue) due to a change in tax rates or other changes in tax regulations;
(d) the amount of deferred tax revenue recognised that arises from a previously unrecognised tax loss, tax credit or temporary difference from previous periods;
(e) the amount of deferred tax expense arising from the reversal of a previously recognised deferred tax asset.

4.15 The tax accrued for the financial year concerned and the previous ones shall be recognised as an accrued tax liability if it has not been settled yet. If the amount already paid in the year concerned and in the previous financial years exceeds the tax charged for those periods, the excess shall be recognised as an accrued tax asset.

4.16 Deferred tax comprises amounts of deferred tax liabilities and amounts of deferred tax assets, as further defined in paragraph B.7 of the Introduction to the SASs and the SAS Framework.

4.17 Tax liabilities (tax assets) for the current financial year and the previous ones are determined on the basis of the amount expected to be paid to (recovered from) the tax authorities, using tax rates (and tax regulations) effective at the balance sheet date. Deferred tax assets and deferred tax liabilities are measured at tax rates that are expected to apply to the financial year in which the deferred tax asset is recovered or the deferred tax liability is settled, respectively. The measurement of deferred tax liabilities and deferred tax assets reflects the tax consequences arising from the expected manner in which the carrying amounts of the assets and liabilities of the organisation at the balance sheet date will be recovered or settled, respectively. Deferred tax assets and deferred tax liabilities shall not be discounted.

4.18 No revaluation is made in respect of net cash inflow or outflow.

C Key Definitions

4.19 These Rules use some terms which need to be explained in order to define the key concepts.

(a) **A business segment** is a distinguishable component of an organisation that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

(b) **A geographical segment** is a distinguishable component of an organisation that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of other geographical segments.

D Clarifications

4.20 Operating profit or loss, contribution margin and gross operating profit or loss may also be determined with respect to a unit of quantity (unit of products and services).

4.21 Total profit or loss including interest expenses shall be determined by increasing or reducing the profit by interest expenses, which then represents the expanded total profit or loss that an organisation would generate, had it not been financed through loans and credits.

E Date of Adoption and Effective Date

4.22 These Rules were approved by the Council of Experts of the Slovenian Institute of Auditors at its session held on 11 December 2015. Organisations whose financial year is identical with a calendar year shall apply these Rules for periods beginning 1 January 2016, while other organisations shall first apply them for the financial year beginning after this date.

From the date on which these Rules come into effect, organisations shall cease to apply SAS 19 – Types of Profit or Loss and of Cash Inflow or Outflow (2006).

Recommended Accounting Rules 5 (2016)

BUDGETING AND BUDGETS

A Introduction

These Rules apply to the preparation of budgets for external and internal users' needs. They deal with:

(a) the definition of budgeting and budgets,
(b) the preparation of budgets by type,
(c) the preparation of budgets by function,
(d) the impact of revaluation on budgets, and
(e) the storage of budgets.

These Rules relate specifically to Slovenian Accounting Standards (SASs) 1–17, 20–23, and Recommended Accounting Rules (RARs) 3, 4, 6, 8, and 9.

The Rules (Section B) shall be read in the context of key definitions (Section C), clarifications (Section D), the Introduction to the Slovenian Accounting Standards and the SAS Framework (2016).

B The Standard

(a) Definition of Budgeting and Budgets

5.1 Budgeting is the processing of data expressed in monetary and non-monetary (natural) units of measure that are relevant to the planned (budgeted) economic categories of business processes and situations. It is focussed on the preparation of budgets comprising the data in monetary and non-monetary (natural) units of measure related to budgeted assets and liabilities, revenue, costs and expenses, as well as inflows and outflows.

5.2 Budgeting for accounting purposes is to be distinguished from financial budgeting, which is associated exclusively with planning in the organisation's financial field, i.e. planning the cash flows or of processes and balances associated with operating, investing and investing; financial budgeting deals with and focuses on only that part of budgeting for accounting purposes that relates to financial thinking.

5.3 Budgeting for accounting purposes that deals with budgets significant for the entire organisation and its relations to others is a part of financial accounting, whereas the budgeting that deals with detailed budgets of an organisation's internal operations is a part of cost accounting. A significant characteristic of budgets, particularly of those related to cost accounting, is the crucial role they play when they are prepared for the purpose of management decision making and comprise data and information not only in monetary, but also in natural units of measure.

5.4 Budgeting is a process important in the preparation of budgets that serve both internal and external users' needs.

5.5 The process of budgeting results in budgets that are usually presented in writing. In order to be as reliable as possible, they shall be subject to accounting supervision and supervision of accounting, and in order to have the greatest possible expressive power, they shall be subject to accounting analyses.

5.6 Submitted budgets shall be distinguished from approved budgets. The former are used as a basis for decision making as part of a planning process or as preparation for implementation in specific areas of decision making, and may include alternative proposals; the latter provide an approved decision

and are used as a criterion in making a comparison with the achieved results. It is recommended to produce budgets on the basis of flexible budgeting; the budgets that are used as a criterion in making a comparison with the achieved results (statements of account), variable costs need to be restated to the realised scope of activities. In such a case, a budget adjusted to realised scope will be made in addition to the original budget.

(b) Preparation of Budgets by Type

5.7 Budgets refer to business events and/or their groups, as well as to units of parts of an organisation or the organisation as a whole.

5.8. Budgeting concerning specific business events is completed when budget calculations have been produced for a specific purchase, production or selling transaction, a business process as well as budgets concerning an individual item of assets, liabilities, investment or any other similar item have been made. Budgeting concerning groups of business events is completed when a revenue budget has been prepared in terms of revenue types, when a cost budget has been prepared in terms of cost types, when an expense budget has been prepared in terms of expense types, when a profit or loss budget has been prepared in terms of their types, when a cash receipts budget has been prepared by their type, when a disbursements budget has been prepared by their type, and when a net cash flows budget has been prepared in terms of their types, i.e. with regard to business operations, investing activities and financing activities.

Budgeting encompasses both budgets in monetary units of measure and budgets in natural units of measure adjusted to individual economic categories, events and processes to which they relate.

5.9 Budgeting concerning individual units of an organisation is completed when flexible budgets have been produced in terms of individual cost centres, when cost budgets have been prepared by responsibility centre, when cost, expense and revenue budgets have been prepared in terms of individual business segments and geographical segments, when profit or loss budgets have been prepared by individual cost centre, when net cash flow budgets have been produced for individual units, and when other similar budgets have been prepared.

5.10 Budgeting concerning an organisation as a whole is completed when a budget balance sheet, a budget income statement, a budget cash flow statement and a budget statement of changes in equity have been prepared. It may also be completed when similar budgets are produced for the organisation as a whole, such as: government grants budget, investment budget, joint venture budget and so forth. Other budgets may be added as an annex to the basic budget financial statements, including those that also explain, in natural (non-monetary) terms, the budgeted monetary achievements.

5.11 The components of financial accounting are budgeting for the entire organisation from RAR 5.10 and budgeting of business events and their groups from RAR 5.8 that relate to relationships with others. The components of cost accounting are the budgeting of business events and their groups referred to in RAR 5.8, which relate to the internal area of operations, and budgeting of units of the organisation referred to in RAR 5.9. The process of budgeting, either within cost accounting or within financial accounting, plays an important role when budgets are prepared for management or owners' decision making and the budgeting results in budgets presented in monetary units of measure, and in budgets presented in natural units of measure, adjusted to individual economic categories, events and processes.

5.12 The budgets prepared under RAR 5.10 for an organisation as a whole, and the budgets prepared under RAR 5.9 for units of the organisation, are prepared for financial years, for interim periods and for specific needs. Budgets prepared for business events and their groups under RAR 5.8 are prepared

for specific needs; the exception is budgets of cash inflow and outflow by their type that are prepared in a manner similar to that used in the preparation of budgets for the organisation as a whole under RAR 5.10.

5.13 Within each budget, an organisation shall clearly define the business assumptions on which it is based, as well as the manner in which they have been incorporated in the budgeting process. Business assumptions may be either certain or uncertain, which needs to be specified. When necessary, a budget should include comparative accounting data taken from a relevant prior period statement of account or other accounting data.

5.14 The contents and methodology of budgets shall be harmonised with the preparation of similar statements of accounts.

(c) Preparation of Budgets by Function

5.15 Budgets are prepared both for internal needs of an organisation as well as for external users who need information about the organisation.

5.16 Budgets aimed at external users are prepared when specifically required by laws and regulations or by an external provider of funds, such as a bank. Budgeting for external purposes may be related to specifically selected budget calculations, but most of them are associated with budget financial statements prepared in respect of an organisation as a whole, or with some detailed budgets of an organisation as a whole, for example associated with government grants. In such cases their content, date of completion and format shall be adjusted to the specific requirements.

5.17 The majority of budgets are prepared exclusively for internal needs of an organisation. The types of budgets to be prepared, including their contents and format, as well as the methods for their preparation, the dates of completion, and the users shall be stipulated in an appropriate act adopted by the organisation.

5.18 The result of budgeting for internal needs is budgets of specific business events or groups of events and budgets prepared parts of an organisation or an organisation as a whole. The budgets shall be supplemented by notes to individual items and as such represent the budget accounting report.

5.19 Budgets submitted to internal users shall be prepared with due diligence, on the basis of current accounting methods and with due consideration to the current understanding of costs, which might also include opportunity costs. Whenever more than one alternative is available for decision making, relevant data and budgets should be prepared for each of them individually.

(d) Impact of Revaluation on Budgets

5.20 When preparing budgets, an organisation shall consider the prices that are relevant in the period for which the budgets are produced. These are actual prices at the moment to which a budget computation refers, and are relevant to a specific purchase, production or sales transaction, or to which a budget refers in relation to a specific asset, liability, investment and similar items. When a budget is prepared in respect of dynamic economic categories, such as costs or revenue to be incurred or generated in a future period, the planned prices used in the budgeting process are those for which there is reasonable certainty that they will be the average prices in the period. When a budget is prepared in respect of static economic categories, such as assets or liabilities included in a budget balance sheet associated with a future period, assumptions should be used with regard to the prices that may reasonably be expected in that future period.

5.21 An original budget on which management decision-making has been based shall be adjusted to changes in prices used to prepare the original budget. In such a case, an adjusted budget will appear

in addition to the original budget; the difference between the two arises from the change in the prices taken into account in the beginning of the budgeting process.

5.22 A components of budgeting may also be the preparation of specific budgets taking into account revaluation of individual economic categories based on reasonable assumptions may also part of budgeting if and when such budgets are important for decision making.

(e) Storage of Budgets

5.23 An organisation shall specify the manner of and the time period for the storage of budgets in its adopted rules on accounting.

C Key Definitions

5.24 These Rules use some terms which need to be explained in order to define the key concepts.

(a) **A budget balance sheet** is a two-column statement of budgeted assets and liabilities on the last day of a budget period.

(b) **A budget income statement** is a statement of budgeted revenue and expenses in a budget period.

(c) **A budget cash flow statement** is a statement of budgeted cash receipts (or inflows) and disbursements (or outflows) in a budget period, including the opening balance of cash.

(d) **A budget statement of changes in equity** is a statement of budgeted increases and/or decreases in any component of equity, i.e. in the called-up capital, capital surplus, revenue reserves, retained earnings, net profit or loss for the financial year, revaluation surplus, and fair value reserves in a budget period.

(e) **A flexible cost budget** is a presentation of the budgeted costs incurred in different scopes of activities in a budget period under the assumption of unchanged prices.

(f) **A responsibility centre** is a unit within the hierarchy of an organisation; it is occupied by a holder of responsibility who is responsible for the incurred costs, revenue, profit or loss or profitability of investments. The holder of responsibility in a superior responsibility centre and the holders of responsibility in its subordinated responsibility centres shall be equally responsible and accountable.

D Clarifications

5.25 Budgeting is a recording process comprising complete or representative collecting of information and an established arrangement of information concerning individual or mass future business processes and situations expressed in a monetary or natural (non-monetary) unit of measure. Those expressed in a monetary unit of measure provide for a presentation of all foreseen future operations, while those expressed in natural units of measure explain future results expressed in a monetary unit of measure. The budgets being the ultimate output of the budgeting process may also be used as a basis for decision making in planning and preparing for the implementation which are important elements of the decision-making process.

5.26 A budget balance sheet for external purposes shall be prepared in compliance with SAS 20, a budget income statement in compliance with SAS 21, a budget cash flow statement in compliance with SAS 22, a budget statement of changes in equity in compliance with SAS 23, and budget cost calculations in compliance with RAR 3. Other formats of statements (e.g. different report or step forms, and similar) may also be used for internal purposes if their information value is greater for the intended purpose.

5.27 A cost (expense) responsibility centre is a responsibility centre in which its manager within the scope of their authority only decides on and assumes responsibility for the budgeted costs (expenses). A revenue responsibility centre is a responsibility centre in which its manager within the scope of their authority only decides on and assumes responsibility for the budgeted revenue by kind of products and/or services. A profit responsibility centre is a responsibility centre in which its manager within the scope of their authority only decides on and assumes responsibility for the budgeted costs (expenses) and revenue, and the budgeted profit or loss. An investments responsibility centre is a responsibility centre in which its manager within the scope of their authority not only decides on and assumes responsibility for budgeted costs (expenses) and revenue or the budgeted profit or loss, but also decides on and assumes responsibility for all issues associated with the budgeted profitability. Responsibility centres shall be distinguished from similarly designated centres as economic units.

E Date of Adoption and Effective Date

5.28 These Rules were approved by the Council of Experts of the Slovenian Institute of Auditors at its session held on 11 December 2015. Organisations whose financial year is identical with a calendar year shall apply these Rules for periods beginning 1 January 2016, while other organisations shall first apply them for the financial year beginning after this date.

From the date on which these Rules come into effect, organisations shall cease to apply SAS 20 – Budgeting and Budgets (2006).

Recommended Accounting Rules 6 (2016)

ACCOUNTS PROCESSING AND STATEMENTS OF ACCOUNTS

A Introduction

These Rules apply to the preparation of statements of accounts for external and internal users' needs. They deal with:

(a) the definition of accounts processing and statements of accounts,
(b) the preparation of statements of accounts by type,
(c) the preparation of statements of accounts by function,
(d) the impact of revaluation on statements of accounts, and
(e) the storage of statements of accounts.

These Rules rely on general accounting theory and relate specifically to Slovenian Accounting Standards (SASs) 1–17, 20–23, and Recommended Accounting Rules (RARs) 5, 8, and 9.

The Rules (Section B) shall be read in the context of key definitions (Section C), clarifications (Section D), the Introduction to the Slovenian Accounting Standards and the SAS Framework (2016).

B The Standard

(a) Definition of Accounts Processing and Statements of Accounts

6.1 Accounts processing is the concluding part of accounting; it deals with the processing of data on realised economic categories of business processes and situations expressed in monetary and natural (non-monetary) units of measure. It is focused on the preparation of statements of accounts that comprise monetary and other data on actually realised assets, liabilities, revenue, costs and expenses, as well as cash receipts and disbursements.

6.2 Accounts processing encompasses the entire accounting required for an organisation's operations as it also includes values that cannot be expressed in a monetary unit of measure. It shall be distinguished from financial accounts processing related solely with the dealing of operations in the field of financial tasks in the organisation, i.e. the processing of cash flow data or of processes and situations associated with the organisation’s operating, financing and investing activities; financial accounts processing deals with that and only that, part of accounts processing that focuses on financial thinking.

6.3 The accounts processing that deals with statements of accounts significant for the entire organisation and its relations to others is a part of financial accounting, whereas the accounts processing that deals with detailed statements of accounts associated with an organisation's internal operations is a part of cost accounting. A significant characteristic of statements of accounts, particularly of those related to cost accounting, is the crucial role they play when they are directly prepared for the purpose of management decision making, and when they comprise data or information not only in monetary, but also in natural (non-monetary) units of measure.

6.4 Accounts processing plays a significant part in the preparation of statements of accounts that serve both internal as well as external users’ needs.

6.5 Accounts processing results in statements of accounts that are usually presented in writing.
In order to be as reliable as possible, they shall be subject to accounting supervision, and in order to have the greatest possible expressive power, they shall be subject to accounting analyses.

6.6 Submitted statements of accounts shall be distinguished from approved statements of accounts. The former are used as a basis for decision-making, and the latter provide a decision taken.

(b) Preparation of Statements of Accounts by Type

6.7 Statements of accounts refer to business events and/or their groups, as well as to parts of an organisation and/or the organisation as a whole.

6.8 Accounts processing concerning specific business events is completed when an accounting calculation has been produced for a specific purchase, production or selling transaction, and when statements of accounts concerning an individual item of assets, liabilities, investment or any other similar item have been made. Accounts processing concerning groups of business events is completed when a revenue statement of account has been prepared in terms of revenue types, when a cost statement of account has been prepared in terms of cost types, when an expense statement of account has been prepared in terms of expense types, when a profit or loss statement of account has been prepared in terms of their types, when a cash receipts statement of account has been prepared by their type, when a disbursements statement of account has been prepared by their type, and when a cash flows statement of account has been prepared in terms of their types, i.e. with regard to business operations, investing activities and financing activities.

6.9 Accounts processing concerning individual parts of the organisation is completed when statements of accounts have been produced by individual cost centre, cost statements of account, expense and revenue account by individual business segment and geographical segment, statements of profit or loss account of individual profit centres, when cash flow statements of accounts have been produced for individual parts of the organisation, and when other similar statements of accounts, supplemented with statements of accounts containing information expressed in natural (non-monetary) units of measure and explaining the monetary amounts of the presented economic categories have been prepared.

6.10 Accounts processing concerning an organisation as a whole is completed with an accounting balance sheet, an accounting income statement, an accounting cash flow statement and an accounting statement of changes in equity. It may also be completed when detailed statements of accounts are produced for an organisation as a whole, such as statements of government grants and subsidies accounts, statements of investment accounts, statements of joint ventures accounts, and so forth. The basic financial statements prepared on the basis of bookkeeping data may be supplemented with statements of accounts containing information expressed in natural (non-monetary) units of measure and explaining the monetary expressed business results of the organisation.

6.11 Accounts processing for the entire organisation under RAR 6.10 and accounts processing of business events as well as of their groups under RAR 6.8 relevant to relations with other organisations are also components of financial accounting. Accounts processing of business events and their groups under RAR 6.8 relevant to internal operations of the organisation, and accounts processing concerning parts of the organisation under RAR 6.9 are also components of cost accounting. Accounts processing, whether it is a process within cost accounting or financial accounting, plays an important role when budgets are prepared for management or owners' decision making and the budgeting results in budgets presented in monetary units of measure, and in budgets presented in natural units of measure, adjusted to individual economic categories, events and processes.

6.12 Statements of accounts under RAR 6.10 for an organisation as a whole, and under RAR 6.9 for parts of an organisation, are prepared for financial years, for interim periods and for specific needs. Statements of accounts under RAR 6.8 with regard to specific business events and their groups are specific purpose statements of account; the exception is accounting cash flow statements by type,

which should be produced in a manner similar to that used in the preparation of statements of accounts for the entire organisation under RAR 6.10.

6.13 When necessary, statements of accounts should include accounting data and information from the relevant budgets, or other comparative accounting data and information.

6.14 Statements of accounts should be substantively and methodologically harmonised the budgets of the same type.

(c) Preparation of Statements of Accounts by Function

6.15 Statements of accounts shall be prepared both for internal needs of an organisation as well as for external users who need information about the organisation.

6.16 Statements of accounts aimed at external users are those comprised in annual or interim financial statements (balance sheet, income statement, cash flow statement, statement of changes in equity, and notes to items included in the financial statements); other statements of accounts prepared for external users are defined in detail by laws and regulations that either introduce them or require them.

6.17 The majority of statements of accounts shall be prepared exclusively for internal needs of an organisation. The types of financial statements to be prepared, including their contents and format, as well as the processes of their preparation, the dates of completion, and the users to which they are to be submitted, shall be stipulated in a relevant general act adopted by an organisation.

6.18 Statements of accounts prepared in respect of business events or of groups of business events, as well as statements of accounts prepared in respect of parts of an organisation or an entire organisation are the output of accounts processing for internal purposes. The statements of accounts shall be supplemented by notes to individual items that may be expressed in monetary or natural (non-monetary) units of measure, and as such represent an accounting report.

6.19 Statements of accounts submitted to internal users shall be prepared with due diligence on the basis of current accounting methods, and on the basis of bookkeeping data recorded in the books of account and deriving from bookkeeping documents and other records available in the organisation.

6.20 The law stipulates which statements of accounts aimed at external users shall be audited and in which organisations are subject to this requirement. The auditing of other statements of accounts depends on the decision taken by the organisation.

(d) Impact of Revaluation on Statements of Accounts

6.21 When preparing statements of accounts, an organisation shall consider all revaluation adjustments of economic categories dealt with by the Slovenian Accounting Standards.

(e) Storage of Statements of Accounts

6.22 Annual financial statements and final statements of employee benefit accounts, including payrolls for the periods for which no final statements of employee benefit accounts are available, shall be stored indefinitely, and the subsidiary accounts shall be kept for five years after the year to which they relate if they are the basis for the calculation or assessment of public charges (taxes, contributions or levies), and for two years otherwise. Annual statements of accounts shall be stored in originals.

C Key Definitions

6.23 These Rules use some terms which need to be explained in order to define the key concepts.

(a) **Accounting balance sheet** is a two-column statement of actually realised assets and liabilities as on the last day of the accounting period.

(b) **Accounting income statement** is a statement of revenue and of expenses during the accounting period.

(c) **Accounting cash flow statement** is a statement of cash receipts (or inflows) and disbursements (or outflows) during the accounting period, including the opening balance of cash.

(d) **Accounting statement of changes in equity** is a statement of increases and/or decreases in the components of equity, i.e. of called-up capital, capital surplus, revenue reserves, retained earnings or losses, net profit or loss for the financial year, revaluation surplus, fair value reserves realised during the accounting period.

(e) **A responsibility centre** is a unit within the hierarchy of an organisation; it is occupied by a holder of responsibility that is responsible for the incurred costs, revenue, profit or loss and profitability of investments. The holder of responsibility in a superior responsibility centre and the holders of responsibility in its subordinated responsibility centres shall be equally responsible and accountable.

D Clarifications

6.24 Accounts processing is a component of accounting. It is based on bookkeeping and other non-bookkeeping records in monetary and non-monetary units of measure. Bookkeeping is a process of documented and strictly formal recording of all past individually established business processes and situations based on complete collecting and established chronological arrangement of information; it is based on data expressed in a monetary unit of measure, which provides for a presentation of all past operations. Statements of accounts resulting from accounts processing may also be used as a basis for decision making in terms of supervision and preparing for the implementation, which are important components of the decision-making process.

6.25 An accounting balance sheet shall be prepared in compliance with SAS 20, an accounting income statement in compliance with SAS 21, an accounting cash flow statement in compliance with SAS 22, an accounting statement of changes in equity in compliance with SAS 23, and an accounting calculation of costs in compliance with RAR 3.

6.26 A cost (expense) responsibility centre is a responsibility centre in which its manager within the scope of their authority only decides on and assumes responsibility for the actually incurred costs (expenses). A revenue responsibility centre is a responsibility centre in which its manager within the scope of their authority only decides on and assumes responsibility for the generated revenue by product and/or service. A profit responsibility centre is a responsibility centre in which its manager within the scope of their authority only decides on and assumes responsibility for the generated costs (expenses) and revenue, and the generated profit or loss. An investments responsibility centre is a responsibility centre in which its manager within the scope of their authority not only decides on and assumes responsibility for the generated costs (expenses) and revenue or the generated profit or loss, but also decides on and assumes responsibility for all issues associated with the achieved profitability. The responsibility centre shall be distinguished from similarly designated centres as economic units.

E Date of Adoption and Effective Date

6.27 These Rules were approved by the Council of Experts of the Slovenian Institute of Auditors at its session held on 11 December 2015. Organisations whose financial year is identical with a calendar year shall apply these Rules for periods beginning 1 January 2016, while other organisations shall first apply them for the financial year beginning after this date.

From the date on which these Rules come into effect, organisations shall cease to apply SAS 23 – Accounts Processing and Statements of Accounts (2006).

Recommended Accounting Rules 7 (2016)

ACCOUNTING SUPERVISION

A Introduction

These Rules apply to supervision within the sphere of accounting. They deal with:

(a) the definition of accounting supervision,
(b) organisational prerequisites for accounting supervision,
(c) the selection of criteria and methods used in accounting supervision, and
(d) the accounting control of data.

These Rules rely on general accounting theory and relate specifically to Slovenian Accounting Standards (SASs) 20–23, and Recommended Accounting Rules (RARs) 1, 2, 5, 6, and 8-10.

The Rules (Section B) shall be read in the context of key definitions (Section C), clarifications (Section D), the Introduction to the Slovenian Accounting Standards and the SAS Framework (2016).

B The Standard

(a) Definition of Accounting Supervision

7.1 Accounting supervision implies an accounting process of assessing the accuracy and of eliminating irregularities in accounting data that exist in the context of bookkeeping, budgeting and analysing. Accounting supervision enhances the reliability of accounting information which explains the situation in and achievements of business operations, thus providing the basis for improvements. The purpose of accounting supervision is to achieve accounting objectives, including compliance with accounting policies and procedures, safeguarding available resources and preparing reliable financial reports. It is part of the overall supervision of data processing and part of the overall accounting.

7.2 Accounting supervision is a component of financial accounting when it deals with conventional accounting data significant for the presentation of the entire organisation or its relations to others; it is a component of cost accounting when it deals with conventional accounting data relevant to details regarding the organisation's internal activities; and it becomes a component of management accounting when it deals with information relevant to decision making.

7.3 Accounting supervision is important when it deals with accounting data and/or accounting information relevant to internal users’ needs, as well as when it is concerned with accounting information for external users' needs. Accounting supervision shall be implemented as accounting control of data whenever these are entered and processed.

(b) Organisational Prerequisites for Accounting Supervision

7.4 Responsibilities within the implementation system shall be separate from responsibilities within the information system. Such approach provides for a better reliability of data that enter the accounting system and prevents their distortion resulting from specific interests pursued by those who are directly involved in business operations. For example: a store-keeper in charge of a materials warehouse should not at the same time perform the duties of an inventory bookkeeper, a cash manager should not be a financial bookkeeper, and the treasurer should not be entrusted with the responsibilities of an accountant. Independence of accounting activities from business operations provides for more reliable accounting data and accounting information.

7.5 Responsibilities within the decision-making system shall be separate from responsibilities within the information system. Such approach provides for a better reliability of information that comes from the accounting system and prevents its distortion resulting from specific interests pursued by those who are directly involved in business operations. For example: a member of the management board cannot be the accountant of the organisation. Independence of the accounting activities from the interests associated with decision-making provides for more reliable accounting data and accounting information.

7.6 The responsibilities within the implementation, as well as the responsibilities within the decision-making, and the information systems, shall be broken down in such a way that persons involved in successive stages of operation can supervise each other in the course of operation. For example: at each level where tasks are performed the superiors can supervise their subordinates. Mutual supervision in each field of responsibilities provides for more reliable accounting data and accounting information.

7.7 In terms of substance, a distinction shall be made between an execution order for a business event and a bookkeeping document evidencing its execution. A prerequisite for the preparation of a bookkeeping documents is the issuance of an order approving the business event. In the same sense, documents related to decision making differ from those related to reporting on what has taken place, and may also differ from those indicating what was supposed to take place. Substantial differentiation between execution orders and bookkeeping documents provides for more reliable accounting data and accounting information.

7.8 In terms of substance, a distinction shall also be made between a bookkeeping document evidencing the execution of a business event and a posting order that determines the arrangement of the relevant accounting data recorded in the books of account. A prerequisite for the issue of a posting order is a bookkeeping document explaining the substance of the transaction. In the same sense, documents related to the reporting on what has taken place differ from documents that determine the method of posting. Substantial differentiation between bookkeeping documents and posting orders provides for more reliable accounting data and accounting information.

7.9 Bookkeeping documents are considered evidence material and shall be completed in line with the discharging principle; all data in the documents are entered by persons discharged of responsibilities and confirmed by persons charged with responsibilities emanating from these documents. The responsibility associated with a bookkeeping document shall always be confirmed on the document itself. Substantial differentiation between both roles played in the development of bookkeeping documents provides for reliable accounting data and accounting information.

7.10 The initial assessment of how decision making and implementation of tasks are reflected in accounting data and their processing is primarily an element of accounting control. It is an activity carried out by the accounting department that is organisationally separated from both the bookkeeping and the budgeting departments. Such separation provides for more reliable accounting data and accounting information.

7.11 Additional assessment of how decision making and implementation of tasks are reflected in accounting data and their processing, as well as the review of accounting control, if necessary, are part of internal auditing of accounting. Accounting control shall be organisationally separated from internal auditing of accounting. Such separation provides for more reliable accounting data and accounting information.

7.12 Other additional assessment of accounting data as well as of accounting control is, if necessary, part of external auditing of accounting. External audits are carried out by services or firms outside the organisation whose accounting is subject to the supervision of accounting. Such separation provides for more reliable accounting data and accounting information.

7.13 In case the organisation's accounting is computerised, the processes shall be implemented in such a way that the accounting supervision and the organisational assumptions for them can be implemented and the requirements do not change in substance. Regardless of the technical implementation, reliable accounting data and accounting information have to be provided for.

7.14 The reliability of accounting data entering the accounting system and of accounting information obtained as an output of the accounting system largely depends on the personal characteristics of those participating in the process of generating them. Integrity is a requirement that particularly applies to persons involved in the accounting supervision, who thus contribute to the accuracy of accounting data and accounting information.

7.15 Reliability shall be checked within the accounting supervision including all accounting components and accounting activities.

(c) Selection of Criteria and Methods Used in Accounting Supervision

7.16 Accounting supervision implies the determination of correctness and accuracy, and is the initial stage in the process of elimination of any irregularities in the field concerned. Correctness can only be established on the basis of clearly defined criteria, i.e. on an appropriate basis for the assessment or judgement of an issue. Accounting supervision shall be carried out by using specific procedures. Verified and well established methods shall be applied in order to provide for proper implementation of accounting supervision and maximum probability that its objectives are achieved. The criteria and methods to be applied to this end may be either prescribed or agreed upon within the profession or the organisation concerned.

7.17 Professional standards require that each organisation provides for accounting controls of data; the methods used in the implementation of these controls shall be specified in the internal rules of the organisation.

7.18 The fundamental criterion for accounting supervision is set by laws and regulations, and by accounting standards defining the substance of the relevant economic categories. In addition, any organisation is free to adopt detailed rules and provisions.

7.19 The basic methods applied in accounting supervision are specified in International Standards for Professional Practice of Internal Auditing; and an organisation itself shall recognise risks associated with accounting and manage them appropriately to ensure that the accounting objectives are achieved.

(d) Accounting Control of Data

7.20 The accounting control of data is a continuous assessment of the correctness of accounting data and the on-going elimination of discovered irregularities. Accounting control is carried out by the accounting department staff in an organisation who receives bookkeeping documents, keeps books of account, prepares statements of accounts and budgets or undertakes accounting analyses and provides the users with accounting information.
The organisation shall identify those persons within the organisation who are responsible for the accounting control of data.

7.21 The accounting control of data makes it possible:

- to provide for the reliability of data;
- to monitor the compliance of documented transactions with respective orders and management decisions and with the legal framework of operation;

– to monitor the discharge of responsibilities with regard to assets and their protection against loss, theft, inefficient use, and with regard to revealing of business secrets, as well as in relation to liabilities, costs and revenue; and
– to determine the compliance of presenting accounting data and accounting information with laws and regulations, accounting standards and/or internal rules adopted by an organisation.

7.22 One of the measures of verifying the reliability of accounting data is also the physical inventory-taking of assets and liabilities with which the accounting data need to be harmonised to reflect the actual situation. The reconciliation of movements in the general ledger and the journal, and the balance in the general ledger and subsidiary books of account are reconciled before the annual accounts and inventory are drawn up. The balance of assets and debts in the books of accounts shall be reconciled at least once a year with the actual situation as established by the inventory.

As a rule, an organisation shall take an inventory of its assets and debts at or as close as possible to the end of the financial year. It may decide that books, films, photographs, archival material, cultural monuments, objects of museum value, works of fine art and objects specially protected as natural or other sites shall not be inventoried every year, but the period between successive inventories shall not exceed five years. The organisation may determine which assets shall also be inventoried during the year.

7.23 The reliability of budget data shall be verified by the assessment of variances between the actual and budget amounts. This exercise may indicate not only the weaknesses in the execution, but also the shortcomings in budgeting, which is the basis of improvements in both budgeting and execution.

7.24 The accounting control of electronically processed data differs from the control of manually processed data. Consequently, an organisation shall provide for such control procedures that will ensure both an on-going verification of data and a good insight into their processing and presentation.

C Key Definitions

7.25 These Rules use some terms which need to be explained in order to define the key concepts.

(a) **Supervision as a decision-making function** implies the process of assessing the accuracy of planning, preparation for implementation, and implementation from the viewpoint of decision-makers, as well as the process of eliminating the irregularities detected in the process.

(b) **Supervision as a component of basic business functions** implies the process of assessing the accuracy of implementation from the viewpoint of decision-makers, as well as the process of eliminating the irregularities detected in the process.

(c) **Supervision as an information function** implies the process of assessing the accuracy in the preparation of data and their transformation into information, as well as the process of eliminating the irregularities detected in the process, or the submission of initiatives to that effect.

(d) **Accounting supervision** implies the on-going verification of accounting data and information; it is a component of both accounting and supervision as the component of the information function. It is carried out within the organisation's accounting. It is to be distinguished from the supervision of accounting.

(e) **Control** is a predominantly preventive supervision based on a professional verification of facts; it is carried out by permanent supervisory bodies operating within the organisation.

(f) **Supervision of accounting** is supervision whose subject matter is accounting. It is carried out by persons who are not employees of the accounting department, in most cases, not employees of

the organisation whose accounting is the subject matter of the supervision. It is usually carried out in the form of internal or external audit.

(g) **Internal auditing** is an independent and impartial assurance and advisory activity designed to add value and improve the performance of an organisation. It helps the organisation to achieve its objectives by systematically and methodically assessing and improving the effectiveness of the organisation's risk management, control processes and governance.

(h) **External auditing** means the audit of financial statements, other assurance engagements and agreed-upon procedures engagements conducted in accordance with the rules of the International Federation of Accounting Professionals in the areas of auditing, assurance and ethics.

D Clarifications

7.26 The system of internal supervision in an organisation includes supervision as a decision-making function, supervision as a component of the basic business or executive functions, and supervision as an information function. Accounting supervision is only part of the entire system of internal supervision, and only one part of the supervision as an information function.

Reliable accounting information is a prerequisite for defining objectives and supervising the operation of the organisation as a whole. In addition, reliable information for individual areas is necessary for direct implementation in the execution areas. Accounting documents are issued in the execution areas of the responsibilities and reflect the business events that have taken place there. The quality of such documents has a strong impact on the quality of accounting data and information, but also reflects the quality of the work in the execution areas in terms of compliance with management decisions.

The dividing line between supervision as a decision-making function, as an implementation function and as an information function is not identical to the separation of the supervised areas; but stems from the division of responsibilities or decision-making relevant to corrective actions. According to this criterion, accounting supervision leads to decisions on the prevention and elimination of errors in accounting procedures or on compliance with the relevant criteria to be used in accounting. Implementation supervising leads to decisions on the prevention and elimination of errors in any of the areas of the executive functions in accordance with the criteria set for that specific function. Decision-making supervision, however, aims at decision-making on views, opinions and proposals associated with the adequacy of the business policies and accounting policies and the accounting efficiency and the implementation function, as well as of the overall internal supervision function, and the adoption of corrective measures according to the operations to which they relate.

7.27 The separation and breaking down of tasks within implementation, information and decision-making functions also depend, among others, on the size of the organisation; in micro, small and some medium-sized organisations the separation as required in RAR 7.4 to RAR 7.6 is often neither feasible nor reasonable.

7.28 Internal accounting control can only be efficient if it is based on the principles of truthfulness, division of responsibilities, transaction control, permanent updating of records, reconciliation between balances recorded on books of account and the actual balance, separation of bookkeeping from the execution of transactions, professionalism, independence and operating efficiency.

The principle of truthfulness requires the establishment of the actual state of affairs in the examined category before the relevant opinion is formulated; the actual state of affairs is a situation that can be corroborated by authentic and credible documents.

The principle of division of responsibilities requires the organisation of work in which an individual is prevented from implementing a transaction from its initiation to its completion.

The principle of transaction control requires the control of a transaction at each stage of its execution with the view of detecting errors as soon as possible thus reducing any harmful effects.

The principle of permanent updating of records requires that transactions are immediately recorded and entered in the books of account because such data alone allow for timely supervision and as early detection of potential errors as possible.

The principle of reconciliation between balances recorded in the books of account and the actual balance puts accounting data into a realistic framework, thus imparting them a special quality feature.

The principle of separation of bookkeeping from the execution of transactions requires that the data relevant to a transaction shall never be dealt with by the person entrusted with the execution of the transaction.

The principle of professionalism requires that only a professionally competent person may be entrusted with an accounting operation, which is a paramount prerequisite for reliable accounting data and information.

The principle of independence requires that persons carrying out accounting supervisions are independent from those whose work they supervise.

The principle of operating efficiency requires that the effects of supervision should not be less than the costs incurred; this cannot, of course, be determined precisely, but can be estimated by analyses.

E Date of Adoption and Effective Date

7.29 These Rules were approved by the Council of Experts of the Slovenian Institute of Auditors at its session held on 11 December 2015. Organisations whose financial year is identical with a calendar year shall apply these Rules for periods beginning 1 January 2016, while other organisations shall first apply them for the financial year beginning after this date.

From the date on which these Rules come into effect, organisations shall cease to apply SAS 28 – Accounting Supervision and Supervision of Accounting (2006).

Recommended Accounting Rules 8 (2016)

ACCOUNTING ANALYSES

A Introduction

These Recommended Accounting Rules (RARs) apply to the analysing of accounting data and the preparation of accounting information on which decision making is based. They deals with:

(a) the definition of accounting analyses,
(b) the identification of the substance of events in accounting analyses,
(c) the identification of impacts on statements of accounts and budgets in accounting analyses,
(d) the analysis of variances between accounting data and criteria,
(e) the selection of accounting indicators from accounting data,
(f) the definition of accounting ratios based on accounting data, and
(g) the relationships between partial findings based on accounting ratios.

These Rules rely on general accounting theory; they also relate to Slovenian Accounting Standards (SASs) 20–23, and the Recommended Accounting Rules (RARs) 4-6 and 9.

The Rules (Section B) shall be read in the context of key definitions (Section C), clarifications (Section D), the Introduction to the Slovenian Accounting Standards and the SAS Framework (2016).

B. The Rules

(a) Definition of Accounting Analyses

8.1 Accounting analyses imply accounting assessment of the quality of events and of accounting data relevant to them; it comprises analyses that are closely related to the preparation of accounting reports on planned and realised business processes and situations. They enhance the quality of accounting information which explains the state and results achieved in business operation, thus providing the basis for improving processes and situations.

8.2 Accounting analyses are part of the overall operation analyses of the organisation.

8.3 Accounting analyses are a component of financial accounting when it deals with accounting data relevant to the presentation of the organisation as a whole or of its relationships with others, and a component of cost accounting when it deals with accounting data about the details of an internal area of operation. Regardless of whether the analyses are part of either cost or financial accounting, any analyses that are important for management (or owners') decision making shall also include the consideration of the decision-making function.

8.4 Accounting analyses are part of other components of accounting, or they complement them; in the latter case, accounting analyses result in written or oral accounting analyses (analytical reports).

(b) Determining the Substance of Accounting Analysis Events

8.5 Modern accounting requires a preference for substance over form. Before accounting analysis can be carried out on the data contained in bookkeeping documents, it is necessary to examine the contents of the relevant events and not be satisfied with the mere form of the events.

8.6 The preparation of analytical reports shall be tailored as closely as possible to the information needs. To be highly expressive, however, reports shall be designed to represent events truthfully and fairly; to this end, accounting analyses are guided both by the needs of the users of the accounting information and by the substance (not merely the manifestation) of the events being reported. Therefore, a critical review of the substance of the data and information to be analysed is required before any analysis is undertaken. This means that, depending on the purpose of the analysis, the accounting data should also be adjusted (e.g. treating preference shares as equity or debt) or restated (e.g. eliminating unusual revenue or expenses) as appropriate.

8.7 The preparation of analytical reports for management needs shall be based on a prior detailed analysis of the problem to which they relate, of possible solutions to that problem, including the advantages and weaknesses of each solution, and of how the accounting information has been prepared on which the relevant decision is based. Such accounting analyses take into account the management function of accounting and may also extend to other functions.

(c) Identification of Impacts on Statements of Accounts and Budgets in Accounting Analyses

8.8 Statements of accounts and budgets derive from the underlying assumptions on the scope of an organisation's activities, amounts, quantities consumed, prices and other elements. If budgets are used as a criterion in circumstances in which some of the assumptions are no longer valid, they contain material misstatements and are therefore not appropriate for consideration in accounting analyses. Such budgets shall be appropriately adjusted to the assumptions that apply in the circumstances for which the budgets are made before they are considered.

8.9 The accounting analyses shall consistently and above all consider the impacts of variable and fixed costs resulting from changes in the scope of activities and changes in prices, and criteria shall be laid down only on this basis. Special attention should be paid to the fact that variable costs need not always be proportional, and that fixed costs need not always be fixed without any limitations, as well as that revenue is not always necessarily proportional.

8.10 In accounting analyses, the relevant mathematical and statistical methods should also be applied.

(d) Analysis of Variances between Accounting Data and Criteria

8.11 The analysis of variances between the actual amounts contained in the statements of accounts and their relevant criteria shall take into account the reasons for the development of the variances; this represents the basis of their assessment of possible solutions and for proposing actions. These Rules deal only with the methodology for identifying variances between the actual performance and the criteria resulting from either inadequate performance or inadequate criteria.

8.12 The criteria used to assess the performance and to identify the variances established between them within financial accounting shall be distinguished from the criteria used in cost accounting; in either case, the procedures used in the analysis of variances are well established. When specific analysis is required to meet the management's direct needs, the general solutions to analyses used in financial accounting or cost accounting may be relied upon, and the solutions can additionally be adjusted to meet the specific requirements.

8.13 In financial accounting, the realised amounts included in the statements of accounts shall be assessed with regard to the planned amounts of the same class contained in the relevant budgets of the same organisation, or with regard to the realised amounts of the same class contained in the comparable statements of accounts of the same organisation for prior periods. The analysis of variances between the amounts included in the statements of accounts of the organisation concerned

and the realised amounts included in the statements of accounts of any other organisation is generally not possible because the data are not available. The analysis shall primarily be focused on the differences in costs, expenses and revenue of certain class that affect the profit or loss for the period; in this case, the criteria generally relate to the scope of activity that differs from that actually achieved, and the criteria are not presented in the relevant accounts.

8.14 In cost accounting, the variances between actual costs for the accounting period and standard costs within the actual scope of an organisation's activity in the same period shall be analysed; the criteria always refer to the realised scope of activities and are presented in the relevant accounts. With respect to the underlying reasons, variances between the data included in the actual cost calculation and the data included in the budget calculation relevant to a unit of products or services can also be analysed.

8.15 The variance between the actual and budgeted profit or loss shall be explained through the variances between the actual and budgeted revenue, the actual and budgeted fixed costs, the actual and budgeted direct costs of certain type, the actual and budgeted indirect variable costs, the actual and budgeted indirect fixed costs, as well as through the variance between the actual and budget amount of inventories of products and work in progress; this approach can indirectly bring us to the variance between the actual and the budgeted expenses, and can explain the variances in the profit or loss for the period.

8.16 The variance between the actual and budgeted revenue shall be analysed by making a distinction between the variance resulting from a change in the scope of activity and the variance resulting from changes in selling prices; when the former is considered, it might be useful to take into account changes in the structure of activities, too. The variance between the actual direct cost of individual type and the budgeted direct cost should be separated into the variance sensitive to changes in consumed quantities, the variance resulting from changes in purchasing prices of individual categories of elements, and the variance resulting from changes in the quantity of individual categories of products and services. The variance between the actual and budgeted variable indirect costs shall be divided into the portion of the variance resulting from changes in the quantities consumed during the period, the portion resulting from the changes in the cost of purchase of the elements of individual categories and the portion of variance resulting from changes in the quantities of certain products and services. The variance between the actual and budgeted fixed indirect costs shall be divided into the portion of the variance resulting from changes in the quantities consumed during the period and the portion resulting from the changes in the cost of purchase of the elements of individual categories. The variance between the actual and budgeted amount of inventories of products and work in progress shall be separated into the variance resulting from the changes in quantities held in inventory and the variance sensitive to the change of the costs held in the inventory. For the purpose of external reporting, the analysing and explaining of variances shall be limited to general summaries; they are only required if and when this is specifically provided for in the standards relevant to external reporting. Detailed analyses for internal reporting depend on the needs of the organisation.

8.17 The variance between the realised profit or loss for the period concerned and the realised profit or loss for the previous period shall be explained in line with RAR 8.13, except that the realised amounts for the previous period shall be considered instead of the budgeted amounts for the period concerned.

8.18 The variance between the actual and standard costs relevant to the scope of activities realised in the period concerned shall be explained through the variance between the actual and standard direct costs of materials for the realised scope of activities, the actual and standard direct labour costs for the realised scope of activities, the actual and standard indirect variable for the realised scope of activities, and the actual and standard fixed indirect costs for the realised scope of activities.

8.19 The variance between the actual and standard direct costs of materials for the realised scope of activities shall be analysed by making a distinction between a variance resulting from a change in

consumed quantities per unit of individual types of products or services and a variance resulting from a change in purchasing prices of individual elements. The variance between the actual and standard direct labour costs for the realised scope of activities shall be analysed by making a distinction between a variance resulting from a change in the quantity of labour consumed per unit of products or services and a variance resulting from a change in labour rates per unit time of labour. The variance between the actual and standard indirect variable costs for the realised scope of activities shall be analysed by making a distinction between a variance resulting from a change in the basis used to allocate these costs, and a variance resulting from a change in the absorption rate of these costs. The variance between the actual and standard indirect fixed costs shall be analysed by making a distinction between a variance resulting from a change in the basis used to allocate the costs, and the variance resulting from a change in the absorption rate of these costs. The variance relevant to indirect costs as a whole may also be broken down into the total budget variance resulting from a change in consumed quantities and prices, the efficiency variance in variable indirect costs resulting from a change in the efficiency of the relevant direct labour, and activity variance in the fixed portion of costs resulting from a change in the scope of activities. This sort of analysis is not required for external reporting purposes. The level of detail used for internal reporting purposes depends on the specified needs and possibilities of the organisation.

8.20 An organisation is free to select the methodology used to analyse variances depending on the specific features of its operations and the objective possibilities of measurement.

e) Selection of Accounting Indicators from Available Accounting Data

8.21 Accounting indicators are absolute numbers associated with individual static or dynamic or derived economic categories for which accounting data are available, such as: assets, share capital, revenue, operating profit or loss, cash flows from operating activities, profit, loss, selling price per unit, full cost per unit, and so forth. Their expressive power is to explain a particular event. The indicators show the accounting (realised in a given period) or budgeted (forecast) value of the economic categories or of the indicators derived from them.

8.22 An organisation is free to select the accounting indicators used for internal reporting purposes.

f) Definition of Accounting Ratios Based on Accounting Data

8.23 Accounting ratios are relative numbers associated with economic categories for which accounting data are available. They include shares (participation rates), coefficients or indices. Ratios are obtained by comparison of two categories.

8.24 An organisation is free to select accounting ratios used for internal reporting purposes, taking into account the specific nature of its business operations and its objective possibilities of measurement, while the mandatory accounting ratios in the context of the preparation of the annual financial report are determined by regulations.

These Rules set out the basic accounting ratios by each area of accounting analyses.

8.25 Given the specific starting point used in the preparation of the balance sheet and the income statement, and with respect to the requirements for different methods of assessing an organisation's performance the accounting ratios are grouped into financial ratios, investing ratios, horizontal financial structure ratios, turnover ratios, efficiency ratios, profitability ratios, value added ratios, and cash flow ratios.

8.26 Fundamental financial ratios:

(a) Equity financing ratio

$$\frac{\text{Equity}}{\text{Liabilities}}$$

(b) Debt financing ratio

$$\frac{\text{Debt}}{\text{Liabilities}}$$

(c) Long-term financing ratio

$$\frac{\text{Equity + long-term liabilities + provisions + long-term accrued expenses and deferred revenue}}{\text{Liabilities}}$$

(d) Short-term financing ratio

$$\frac{\text{Short-term liabilities + short-term accrued expenses and deferred revenue}}{\text{Liabilities}}$$

(e) Debt to equity ratio

$$\frac{\text{Debt}}{\text{Equity}}$$

8.27 Fundamental investment ratios

(a) Fixed assets investment ratio

$$\frac{\text{Fixed operating assets (at carrying amount)}}{\text{Assets}}$$

(b) Current operating assets ratio

$$\frac{\text{Current operating assets + short-term deferred costs and accrued revenue}}{\text{Assets}}$$

(c) Investment assets ratio

$$\frac{\text{Long-term investments + short-term investments + investment property}}{\text{Assets}}$$

(d) Long-term investment ratio

$$\frac{\text{Fixed operating assets and long-term deferred costs and accrued revenue + investment property + long-term investments + long-term operating receivables}}{\text{Assets}}$$

(e) **Short-terms investment ratio**

$$\frac{\text{Current assets + short-term deferred costs and accrued revenue}}{\text{Assets}}$$

(f) **Accumulated depreciation rate**

Accumulated depreciation of fixed assets

$$\text{Cost of fixed assets}$$

(g) **Fixed assets to labour ratio**

$$\frac{\text{Fixed operating assets (at cost)}}{\text{Number of employees in the largest shift}}$$

8.28 The basic horizontal financial structure ratios:

(a) **Equity to fixed assets ratio**

$$\frac{\text{Equity}}{\text{Fixed operating assets (at carrying amount)}}$$

(b) **Equity to long-term assets ratio**

$$\frac{\text{Equity}}{\text{Long-term assets}}$$

(c) **Total capital to long-term assets ratio**

$$\frac{\text{Equity + long-term debt + provisions + long-term accrued costs and deferred revenue}}{\text{Long-term assets}}$$

(d) **Total capital to long-term assets and normal inventories ratio**

$$\frac{\text{Equity + long-term debt + provisions + long-term accrued costs and deferred revenue}}{\text{Long-term assets and normal inventories}}$$

(e) **Acid test ratio**

$$\frac{\text{Cash}}{\text{Short-term liabilities}}$$

(f) **Quick ratio**

$$\frac{\text{Cash + short-term receivables}}{\text{Short-term liabilities}}$$

(g) **Current ratio**

$$\frac{\text{Current assets}}{\text{Short-term liabilities}}$$

(h) **Accounts receivable to accounts payable ratio**

$$\frac{\text{Trade receivables}}{\text{Trade payables}}$$

(i) **Short-term receivables to short-term liabilities ratio**

$$\frac{\text{Short-term receivables}}{\text{Short-term liabilities}}$$

8.29 The basic turnover ratios

(a) **Current assets turnover ratio**

$$\frac{\text{Operating revenue for the year}}{\text{Average total assets}}$$

(b) **Operating assets turnover ratio**

$$\frac{\text{Operating expenses of the year}}{\text{Average current operating assets}}$$

(c) **Fixed assets turnover ratio**

$$\frac{\text{Depreciation of the year}}{\text{Average fixed operating assets (at carrying amount)}}$$

(d) **Materials inventory turnover ratio**

$$\frac{\text{Material consumed during the year (at cost)}}{\text{Average materials inventory (at cost)}}$$

(e) **Products inventory turnover ratio**

$$\frac{\text{Costs of products sold during the year (generally production costs)}}{\text{Average costs of inventory of products (generally production costs)}}$$

(f) **Merchandise inventory turnover ratio**

$$\frac{\text{Cost of merchandise sold during the year}}{\text{Average cost of inventory of merchandise}}$$

(g) **Trade receivables turnover ratio**

$$\frac{\text{Cash receipts from customers during the year}}{\text{Average trade receivables}}$$

(h) **Trade payables turnover ratio**

$$\frac{\text{Cash payments during the year}}{\text{Average trade liabilities}}$$

Using each turnover ratio, the average term of the tying can be calculated by dividing the number of days in the period by the turnover ratio for the same period.

8.30 The basic efficiency ratios

(a) **Operating efficiency ratio**

$$\frac{\text{Operating revenue}}{\text{Operating expenses}}$$

(b) **Total efficiency ratio**

$$\frac{\text{Revenue}}{\text{Expenses}}$$

(c) **The following coefficients are also used as operating efficiency ratios**

$$\frac{\text{Production costs in quantities sold}}{\text{Operating revenue}}$$

$$\frac{\text{Depreciation charges}}{\text{Operating revenue}}$$

$$\frac{\text{Labour costs}}{\text{Operating revenue}}$$

$$\frac{\text{Costs of materials}}{\text{Operating revenue}}$$

$$\frac{\text{Cost of services}}{\text{Operating revenue}}$$

(d) **Interest cover ratio**

$$\frac{\text{Profit or loss before tax + interest on loans received}}{\text{Interest on loans received}}$$

(e) **Profitability of operating revenue**

$$\frac{\text{Profit or loss}}{\text{Operating revenue}}$$

(f) **Operating profitability**

$$\frac{\text{Operating profit or loss}}{\text{Operating revenue}}$$

(g) **Revenue profitability**

$$\frac{\text{Profit or loss}}{\text{Revenue}}$$

(h) **Net revenue profitability**

$$\frac{\text{Net profit or loss}}{\text{Revenue}}$$

In the event of a loss, ratios (e) to (h) shall be negative.

8.31 The basic profitability ratios

(a) **Net return on equity**

$$\frac{\text{Net profit for the accounting period}}{\text{Average equity (without net profit or loss for the accounting period)}}$$

(b) Expanded return on assets

$$\frac{\text{Profit or loss for the accounting period + interest paid}}{\text{Average assets}}$$

(c) Net return on assets

$$\frac{\text{Net profit or loss for the accounting period}}{\text{Average assets}}$$

(d) **Dividend pay-out ratio**

Dividends paid for the financial year

$$\text{Net profit or loss}$$

$$\frac{\text{Dividends paid for the financial year}}{\text{Accumulated profit}}$$

(e) Net earnings per ordinary share

$$\frac{\text{Net profit for the financial year available to ordinary shares}}{\text{Average number of outstanding ordinary shares}}$$

(f) Diluted net earnings per ordinary share

$$\frac{\text{Diluted net profit for the financial year available to ordinary sharers}}{\text{Average number of diluted outstanding ordinary shares}}$$

(g) Dividend per share

$$\frac{\text{Sum of dividends paid for ordinary shares in the financial year}}{\text{Average number of outstanding ordinary shares}}$$

8.32 The basic value added ratios:

(a) Added value per employee

$$\frac{\text{Added value}}{\text{Average number of employees}}$$

(b) **Employees' participation in added value**

$$\frac{\text{Total net wages and salaries (net of taxes and contributions) and other employee shares}}{\text{Added value}}$$

(c) **Added value on equity invested**

$$\frac{\text{Added value}}{\text{Average equity (net of net profit or loss for the accounting period)}}$$

8.33 The basic cash flow ratios:

(a) **Net cash flow ratio**

$$\frac{\text{Net cash inflow or outflow from operating activities}}{\text{Operating revenue}}$$

(b) **Net cash flow to account profit or loss**

$$\frac{\text{Net cash inflow or outflow from operating activities}}{\text{Operating profit or loss}}$$

(c) **Investment to net cash flow ratio**

$$\frac{\text{Net cash inflow or outflow from operating activities}}{\text{New investment balance}}$$

(d) **Debt to net cash flow ratio**

$$\text{Net cash inflow or outflow from operating activities}$$

Debt balance

8.34 An organisation is free to select the method of comparing ratios to be used for internal purposes. It shall use calculations for its external purposes and such comparison is only mandatory if required by regulations or other commitments, for example in the area of corporate social responsibility.

8.35 Different accounting ratios for the same year can also be reasonably related in substance by adding or multiplying, where an accounting ratio of a higher order is the sum or the result of multiplying accounting ratios of a lower order, e.g. return on assets can be explained not only mathematically but also in substance by multiplying profitability of operating revenue and turnover of total assets.

8.36 An organisation is free to select a system of related ratios for its internal needs; for external reporting needs, however, the system of linked ratios is mandatory only when this is required by regulations or good business practices.

C Key Definitions

8.37 These Rules use some terms which need to be explained in order to define the key concepts.

(a) **Variance** is the difference between a compared and a comparable amount of a selected economic category. An organisation's efficiency and/or performance may be judged on the basis of variance data.
(b) **An indicator** is an absolute number associated with individual static or dynamic or derived economic categories for which accounting data are available.
(c) **A ratio** is a relative number obtained by comparing two amounts; it has the cognitive power to formulate a judgement about the business operations. Depending on the nature of the amounts compared, a ratio may be a share (participation rate), an index or a coefficient.
(d) **An index** is a relative number expressing a relationship between two amounts of the same kind; multiplied by 100.
(e) **A coefficient** is a relative number expressing a relationship between two amounts of different categories that are nevertheless comparable. It is usually a nominal number.
(f) **Participation rate** is a relative number expressing a relationship between two amounts of the same kind; the former of the two applies to one part of a category, and the latter to the category as a whole.
(g) **Net profit or loss available to ordinary shareholders** is the net profit or loss for the financial year after deducting items not attributable to ordinary shareholders, such as preference dividends.
(h) **Diluted net profit or loss available to ordinary shareholders** is the net profit or loss for the period available to ordinary shareholders, adjusted for the effects of all diluted potential ordinary shares.
(i) **Fixed operating assets** comprise property, plant and equipment and intangible assets.
(j) **Current operating assets** are current assets reduced by short-term investments and increased by long-term operating receivables and short-term deferred costs and accrued revenue.
(k) **Value added** is the difference between the sum of total revenue and the sum of total expenses, excluding wages and salaries and allowances due to employees under operating expenses, interest and other remuneration due to lenders and creditors under expenses, and taxes due to the state.

Value added in a narrow sense is total operating revenue (gross return on operating activities) less the costs of goods, materials and services and other operating expenses.

D Clarifications

8.38 Variance analysis depends on limitations inherent in the classification of costs into fixed and variable costs; consequently, it is often necessary – given the circumstances and the selected methodology applied – to simplify and explain simplifications in order to avoid possible misinterpretations. The actually achieved prices shall always be construed as average prices of the period, while the actually consumed quantities per unit of products and services are the average per-unit-quantity consumed. The scope of activity may be defined in terms of the quantity of products and services expressed per conditional units, in terms of direct production man-hours or in some other terms. The units of products and services may also be considered as conditional units to which a variety of products and services may be translated. In any case, the organisation shall explain the details of the methodology applied.

8.39 When calculating the ratios, two errors may be made: the first has to do with a different expressive power attached to an individual ratio, and the second results from using wrong data when calculating a ratio. Consequently, it is always necessary to verify whether the data have been produced in accordance with the accounting standards and whether they have been adequately presented in the financial statements.

8.40 Some ratios are based on comparisons between statically defined categories (taken from a balance sheet) and dynamically defined categories (taken from an income statement). In this event, an organisation shall not simply use the statically defined categories from the balance sheet at the end of the year; instead, it shall calculate their averages, for which it is usually not sufficient to know the position at the beginning and end of the year. Statically determined closing balances alone may only be used to calculate mutually linked ratios, where specific explanations are required, and often cannot be avoided even when making comparative analyses with other organisations.

8.41 In turnover ratios the numerator should include data relevant to a decrease in the category the average balance of which is shown in the denominator; the amount shown in the numerator should be as close to the value of the denominator as possible. For example: when calculating the turnover ratio of inventories of products to the average value of inventories of products, all operating expenses should not be compared given the fact that the inventories do not include costs of all types that are transformed into expenses. Furthermore, the result obtained when calculating the materials inventory turnover ratio depends on the method used to determine the value of inventories.

8.42 When comparing the values of the same ratios between organisations, it is necessary to make sure that they are calculated in the same way.

E Date of Adoption and Effective Date

8.43 These Rules were approved by the Council of Experts of the Slovenian Institute of Auditors at its session held on 11 December 2015. Organisations whose financial year is identical with a calendar year shall apply these Rules for periods beginning 1 January 2016, while other organisations shall first apply them for the financial year beginning after this date.

From the date on which these Rules come into effect, organisations shall cease to apply SAS 29 – Accounting Analyses (2006).

Recommended Accounting Rules 9 (2016)

ACCOUNTING INFORMATION

A Introduction

These Rules apply to the preparation of accounting reports for external and internal users' needs. They deal with:

(a) the definition of accounting information,
(b) the users of information included in accounting reports,
(c) the preparation of information included in accounting reports,
(d) the disclosures in financial statements and other accounting reports,
(e) the disclosures in appendices to financial statements, and
(f) the revaluation of items included in accounting reports.

These Rules rely on general accounting theory and specifically relate to Slovenian Accounting Standards (SASs) 20-23 and Recommended Accounting Rules (RARs) 5-8.

The Rules (Section B) shall be read in the context of key definitions (Section C), clarifications (Section D), the Introduction to the Slovenian Accounting Standards and the SAS Framework (2016).

B The Standard

(a) Definition of Accounting Information

9.1 The accounting information process implies the presentation of accounting data and accounting information to their users. As such, it represents the ultimate stage of bookkeeping, budgeting, accounting supervision and accounting analyses.

9.2 Accounting information is part of the comprehensive information system required for a smooth operation of an organisation. It differs from providing financial information which merely contains information on processes and positions in relation to the organisation's financial function; financial information deals with and focuses only on that part of accounting information that relates to financial thinking and therefore, it also extends to other areas.
9.3 Accounting information is a component of financial accounting when it deals with accounting data significant for the presentation of the entire organisation's operation or its relations with others; however, it is a component of cost accounting when it deals with accounting data associated with details of an organisation's internal activities, and a component of management accounting when it deals with accounting information required for the management needs.

9.4 Accounting information is provided by means of accounting reports containing accounting data and/or accounting information expressed in either monetary or natural units of measure. As a rule, accounting reports are made in writing, but they may also be presented orally. Written accounting reports may also be shown on computer screens.

(b) Users of Information Included in Accounting Reports

9.5 Accounting information is relevant for internal and external needs.

9.6 Internal users of accounting information include:
– individual task performers who are required to make decisions regarding the execution details in the organisation,

- managers from the lowest to the highest ranks in the organisation,
- managing and supervising bodies in the organisation, and
- employees of the organisation.

9.7 External users of accounting information include:
- owners of the organisation that are not members of its managing and/or supervising bodies (including potential investors),
- lenders (especially providers of long-term as well as short-term loans),
- suppliers (especially providers long-term commodity credits as well as providers of short-term credits),
- customers (especially major regular customers),
- the state, and
- the public at large (including competitors).

9.8 Accounting reports submitted to the users of the information contained in them may be either periodic or occasional accounting reports. Periodic accounting reports are submitted in specific time intervals and contain conventional accounting data and/or financial information relating to relevant accounting periods. Occasional accounting reports, however, are submitted to the users in time intervals that are not specified in advance and they contain accounting data and/or accounting information prepared for specific purposes.

9.9 In terms of the purpose of the information contained, accounting reports may be action reports, control reports or informative reports. Action accounting reports are intended for the users who participate in the process of decision-making relevant to planning, preparation for implementation and implementation. Control accounting reports are aimed at the users who participate in the process of decision-making relevant to supervision or preparation of implementation. Finally, informative accounting reports are intended for the users who should be informed in very general terms, yet do not participate in decision-making processes.

(c) Preparation of Information Included in Accounting Reports

9.10 The frequency of providing accounting information and the degree of detail are determined by the position of the information in the sequence shown under RAR 9.6 and RAR 9.7. The information ranked on the top of the list under RAR 9.6 should be available on an ongoing basis, i.e. more frequently than any other sort of information; the information ranked last on the list under RAR 9.7, on the other hand, should be available less frequently and regularly than all other information. The greatest detail of information is required for the former and much summarised information is expected for the latter group.

9.11 The scope of the information required depends on the position and function of their user within the decision-making process. If the user has to take decisions, the accounting information shall explain every aspect of the different alternatives and their respective impacts; however, if the user merely needs to be informed of events which are for others to decide, the information may be of a general nature.

9.12 Accounting reports shall provide readily understandable, relevant, reliable and comparable accounting information. Accounting information is deemed to be understandable if its users who have sufficient knowledge of the organisation's business operations and economic activity, and reasonable knowledge of accounting, and a willingness to study the information with reasonable diligence, are able to understand it without any problems. Accounting information has the quality of relevance when

it helps the users to make, or correct, or approve business decisions. The relevance of accounting information depends on its type and materiality, while the materiality of information, in turn, depends on the amount of information in any given circumstances, or on its omission or misrepresentation; the degree of materiality attached to the same information may vary from one user to another. Accounting information has the quality of reliability when it is free from material errors and bias, and is a true and fair presentation of what it purports to represent, or could reasonably be expected to represent; the information should be complete. Information contained in annual financial statements is more reliable if and when the financial statements have been audited. The comparability of accounting information means not only that due to uniformity of methods applied it is possible to compare the items included in the financial statements of the same organisation for different financial years, or items included in financial statements of different organisations, but also that in terms of the methodology applied the accounts and entries to the accounts are uniform both in the same organisation and in different organisations.

9.13 In providing accounting information, the need for timeliness should be taken into consideration. This applies to both the preparation and the proposal of relevant accounting information needed for decision making; if the information is not submitted too late, it may be no longer be useful. However, a balance between the cost of preparing a piece of accounting information and the benefits it brings should be taken into account.

9.14 Accounting information shall be provided in writing, including the display on a computer screen, or orally by reporting accounting data or accounting information that are already available in writing. Accounting information is reported as numbers and their notes as components of accounting reports. Depending on the period to which they refer, accounting report may appear either as components of budgets or as components of statements of accounts. Financial statements represent the most synthetic form of accounting information.

9.15 Internal users of accounting data and accounting information are obliged to cooperate with the persons who prepare them; in this context, it is necessary to consider which accounting data and accounting information are needed and by whom, as well as when the data should be available and for what purposes. The management of the organisation is responsible for providing external users with such data and information that will show a true and fair view of the organisation.

9.16 When preparing accounting information, an organisation is required to observe the underlying assumptions of accrual basis and going concern, unless there is reasonable doubt about whether the organisation is a going concern. The information shall above all be understandable, relevant, reliable and comparable. The selection and the application of accounting policies, on the other hand, shall be based on the principles of prudence, substance over form, and materiality.

(d) Disclosures in Financial Statements and Other Accounting Reports

9.17 The financial statements as a whole comprise:
- a balance sheet,
- an income statement,
- a statement of changes in equity,
- a cash flow statement, and
- notes to financial statements.

Each of these components is considered to be a financial statement in itself, regardless of whether it is aimed at internal or external users' needs.

9.18 An accounting report comprises financial statements as a whole, the individual financial statements, the individual budgets or statements of accounts or merely a selection of accounting data and/or accounting information accompanied by relevant notes. Accounting reports may have the nature of occasional and periodic (including annual) reports.

9.19 Within the basic annual business reporting of large and medium-sized organisation, the format of the balance sheet shall comply with SAS 20.4, the income statement shall be presented in the format stipulated by SAS 21.6 or 21.7, the cash flow statement format shall comply with SAS 22.6, 22.9 or 22.16, and the statement of changes in equity shall be prepared in the format stipulated by SAS 23.3 allowing for the presentation of changes in equity as stipulated in SAS 23.2. Within the basic annual business reporting of small organisation, the balance sheet may be presented in the abbreviated format as provided for by SAS 20.8, the format of income statement shall be identical to that of large and medium-sized organisations, whereas the cash flow statement and the statement of changes in equity may be omitted, unless the organisation are part of a group for which consolidated financial statements are prepared, or unless its shares are quoted on a stock exchange. Taking into consideration its specific needs, an organisation may also decide to introduce subcategories within the regulated categorisation.

9.20 Should an organisation, which is a company, decide to publish a summary of its annual report in mass media, it is sufficient for its balance sheet and income statement to comprise the following summary statements from which the identity of the summaries in comparison to the complete balance sheet and complete income statement for the period submitted to an authorised organisation can be established:

BALANCE SHEET

Assets

A Long-term assets
I Intangible assets and long-term accruals and deferrals
II Property, plant and equipment
III Investment property
IV Long-term investments
V Long-term operating receivables
VI Deferred tax assets

B Current assets
I Assets (disposal groups) held for sale
II Inventories
III Short-term investments
IV Short-term operating receivables
V Cash

C Short-term deferred costs and accrued revenue

Liabilities

A Equity
I Equity
II Capital surplus
III Revenue reserves
IV Revaluation surplus

V Fair value reserves
VI Retained earnings or loss
VII Net profit or loss for the financial year

B Provisions and long-term accrued costs and deferred revenue

C Long-term liabilities
I Long-term financial liabilities
II Long-term operating liabilities
III Deferred tax liabilities

D Short-term liabilities
I Liabilities of disposal groups
II Short-term financial liabilities
III Short-term operating liabilities

E Short-term accrued costs and deferred revenue

INCOME STATEMENT
Operating revenue
– Operating expenses
+ Financial revenue
– Financial expenses
= Profit or loss from ordinary activities
+/– Other revenue (expenses)
– Income tax (+/– deferred taxes)
= Net profit or loss for the period

Other types of organisations shall present items of equity and profit or loss in a meaningful way, as used in Slovenian Accounting Standards 30 to 34.

9.21 The format of other accounting reports for external needs is usually stipulated by laws and regulations, good business practices or, in the case of contractual relationships, by agreement between the organisation and the contractual partner (e.g. a bank).

9.22 The format of financial statements and other established accounting reports for internal needs shall be stipulated by a general act of the organisation.

9.23 In the event that accounting data included in financial statements or other accounting reports do not comply with RAR 9.16, this fact shall specifically be mentioned and substantiated. A description of the relevant accounting policies applied should be an integral part of both the published financial statements and other accounting reports.

(e) Disclosures in Appendices to the Financial Statements

9.24 The appendices to financial statements are explanatory notes that do not represent independent statements. An erroneous or inadequate disclosure of items included in the balance sheet, income statement and/or other financial statements cannot be justified by either the most detailed description of the relevant accounting policies applied, or by the notes and/or clarifications.

9.25 The appendices to the financial statements are used to show subcategories of the categories that are included in the required format of the financial statements. Within the basic annual reporting, the

mandatory additional disclosures are required of items included in the balance sheet as stipulated under SAS 20.10–20.18, of items included in the income statement as stipulated under SAS 21.15–21.27, as well as the disclosures required by Section B, subsection (e), of SAS 1–11 and Section B, subsection (d) of SAS 12 – 15.

9.26 The organisations in which the annual general meeting of shareholders decides on the appropriation of the accumulated profit shall, in accordance with the Companies Act, present to the annual general meeting of shareholders a report showing the following items:

(a) net profit / loss for the period;
(b) retained earnings / loss from previous years (as a deduction item);
(c) a decrease in capital surplus;
(d) a decrease in revenue reserves;
(e) an increase in revenue reserves ((i) legal reserves, reserves for own shares and interests, and statutory reserves based on the management's decision at the time of the preparation of the annual report; (ii) other revenue reserves based on the management's and supervisory board's decision);
(f) the amount of long-term deferred development costs at the balance sheet date; and
(g) the accumulated profit (a +b +d-e-f) appropriated by the annual general meeting of shareholders to be distributed to shareholders, allocated to other reserves, carried forward to the following year, and to be used for other purposes.
or
accumulated loss (a+b +c+d-e-f).

The resolutions adopted by the annual general meeting of shareholders shall be entered in the new financial year, whereas the decisions made by the management and the supervisory board shall be included in the relevant items of the balance sheet and the statement of changes in equity for the current financial year.

9.27 Within external reporting, the appendices to annual financial statements shall primarily include the ratios stated under SAS 8.26 - items (a) and (c), under SAS 8.27 - items (a) and (d), under SAS 8.28 - items (a), (e), (f) and (g), under SAS 8.30 - item (a), and under SAS 8.31 - items (a) and (d).

Within internal financial reporting, the organisation’s act shall determine ratios, indicators, and types of variances that are the subject of the accounting analyses of the operations.

9.28 Whenever the auditing of financial statements is regulated by law, the auditor's report shall also be attached to the audited financial statements.

9.29 Should an organisation publish the summary of its annual report, the entire auditor's report shall not be attached; instead, the auditor's opinion and a potential short explanatory statement may be revealed. The published summary annual report may contain an auditor's report on that summary alone.

9.30 Accounting data that are business secrets should not be disclosed to unauthorised persons.

(f) Revaluation of Items Included in Accounting Reports

9.31 The revaluation details of individual accounting categories are dealt with in Section B, subsection (d), of SAS 1–15. In financial reporting, all the disclosure requirements contained in the relevant Slovenian Accounting Standards shall be considered.

C Key Definitions

9.32 These Rules use some terms which need to be explained in order to define the key concepts.

(a) **Accounting data** are inputs within accounts processing, but may also be outputs of the processing. They express neutral facts.

(b) **Accounting information** is the output of accounting data processing. It focuses on an issue and as such represents the basis of decision-making. It may have the form of items included in financial statements or other accounting reports.

(c) **A financial statement** is a systematic presentation of the effects of accounts processing. All groups of items included in them as a whole and/or individually are part of accounting information, whereas their individual items usually consist of accounting data.

(d) **An accounting report** is a set of communications that contain clearly arranged data about economic categories (e.g. in financial statements), as well as estimates, notes and explanations of budget and statement of account data. It may be a budget report or an accounting report, either of which may be submitted or adopted, an action, control or informative report. Accounting reports include reports for both internal and external needs. The organisation's accounting report for external purposes is defined by regulations.

(e) **Relevance of accounting information** is the characteristic of information that satisfies the needs of the users of accounting information in terms of substance, form, time and method of reporting.

(f) **Materiality of accounting information** is the characteristic of information that has an impact on assessments and/or decision making; such impacts need to be separately disclosed.

(g) **Cost efficiency of accounting information** is the characteristic of information that the benefits derived from information exceed the cost of providing it.

(h) **Disclosures within the provision of accounting information** imply the presentation of fair and true information raising no doubts in connection with the accounting data submitted to the users.

D Clarifications

9.33 The purpose of accounting information is to enable the users of accounting information to be as efficient as possible when assessing, evaluating, inferring and making decisions. Accounting information represents a transfer of information between the decision-making and the implementing functions either within the organisation itself or between the organisation and the external users of its information. Consequently, accounting information is of crucial significance when establishing the gist of the economic categories and events associated with the organisation’s business operations. The system of accounting information thus provides for meaningful flows and methods of both receiving and transmitting accounting data and/or accounting information to the users.

9.34 Accounting data originate primarily from bookkeeping and/or budgeting, while accounting information is usually the fruit of accounting analyses and accounting supervision in an organisation.

Accounting information that appears in specific intervals determined in advance as well as in specific formats used for financial statements plays a particularly important part. The same applies to different regular or special-purpose accounting reports with notes and explanations of assessments, conclusions, proposals and initiatives.

9.35 True and fair accounting information implies the reporting on reliable and verified facts as a whole as well as of all relevant notices and explanations, all without any opinions and prejudice submitted in advance. Within this context, all relevant disclosures shall be made available to the users without any intention of misleading them and/or of creating any doubt.

9.36 Certain requirements concerning the preparation of accounting reports, such as timeliness and cost-effectiveness, might jeopardise some other requirements; this particularly applies to the principles of relevance, completeness, verification and reliability. Given the fact that timeliness is crucial when business decisions are made, especially those that have to do with the implementation, and when supervision should be exercised over implementation of the decisions, provisional accounting data and provisional accounting information are still used to provide for the safety of the operations. Their incompleteness as well as incorrectness may temporarily be tolerated when management reporting is involved, however such deficiencies should clearly be disclosed.

9.37 Within this scope, different internal and external users of accounting data and accounting information also have their own specific interests. These are to be observed and adjusted to as much as possible; nevertheless, this should not in any way jeopardise the right of all users to the complete and material information. The focus of attention of the management and slightly less detailed and less frequent focus of the members of the managing and supervisory bodies as the main users is accounting information relevant to the organisation's current and final liquidity and solvency, its financial position and its profitability structured as specific components of information.

The providers of equity as well as the current and potential future investors are primarily interested in the amount and the consistency of their yield expressed in dividends or shares in the net profit, in the policy of net profit distribution, in the organisation's long-term profitability, as well as in the quality of its management.

Banks and other providers of funds who are granting long-term loans are primarily interested in the ability of the organisation to pay back the loans regularly and, in this connection, in the long-term return on assets, financial position and the quality of its management.

Suppliers as providers of long-term supplier credits are primarily interested in the long-term return on assets and in the quality of its management.

The employees and the bodies representing their interests are particularly concerned with the organisation's net profitability of operations and their participation in the profits, including their potential wages and salaries, social benefits, their long-term employment opportunities and the quality of the management.

Banks and other short-term lenders and short-term trade and other creditors want to be informed about the current liquidity of the organisation and about its financial position.

The organisation's major regular customers are primarily interested in the long-term return on the organisation's assets and, consequently, in its ability to maintain an adequate level of operations, as well as in the organisation's financial position and the quality of its management.

Competitors find accounting information interesting for two quite opposite reasons: to establish the feasibility to acquire the organisation or to be themselves acquired by the organisation. In this connection their interest focuses primarily on the net profitability, the financial position and the quality of management in the organisation.

The state (including each and every level subordinated to it) and its bodies are primarily interested in the allocation of resources, including the employees, as well as in the special benefits and rights that the organisation might profit from its monopoly position or its natural rent, which is all associated with imposing levies.

The public at large, and especially the community in which the organisation operates, will want to use its accounting information to establish whether the organisation might represent a hazard to human environment and, should this be the case, to find out what measures should be taken to either limit or prevent the hazard. The public will also want to know whether the organisation has both economic and financial possibilities to help solving local issues and those relating to employment opportunities.

Consequently, the public will primarily be interested in the added value generated by the organisation, the profitability of its operations and its financial position.

9.38 Reconciliation activities make an important contribution to the development of accounting information, where alternative solutions are allowed and explanations where differences exist.

9.39 The justification and pertinence of accounting information depend on the applicability of the provided accounting data and accounting information, and on the users' ability to apply the information in practice. Hence the need for (possibly direct) contacts between providers of accounting data and accounting information on the one hand and their users on the other.

9.40 Accounting data and accounting information are only useful if and when they are fair and true, the objective to which the Slovenian Accounting Standards should largely contribute. In this context, the auditing of financial statements or the system of accounting in general plays a crucial part in providing objective and unbiased control, and in establishing whether accounting information complies with such criteria.

E Date of Adoption and Effective Date

9.41 These Rules were approved by the Council of Experts of the Slovenian Institute of Auditors at its session held on 11 December 2015. Organisations whose financial year is identical with a calendar year shall apply these Rules for periods beginning 1 January 2016, while other organisations shall first apply them for the financial year beginning after this date.

From the date on which these Rules come into effect, organisations shall cease to apply SAS 30 – Accounting Information (2006).

Recommended Accounting Rules 10 (2016)

CONSOLIDATION

A Introduction

These Rules apply to the preparation of consolidated financial statements for organisations that are not required by law to prepare consolidated financial statements. Organisations that are legally required to prepare consolidated financial statements prepare them on the basis of International Financial Reporting Standards (IFRS). These Rules are based on general accounting theory and are mainly related to the Introduction to the Slovenian Accounting Standards and the SAS Framework (2016).

B Rules

(a) Consolidation Procedures and Accounting Treatment of Consolidation

10.1 A parent organisation prepares consolidated financial statements for a group of organisations.

10.2 Full consolidation is normally used for the parent organisation and its subsidiaries. Full consolidation is a method of combining the financial statements of the parent and its subsidiaries on an item-by-item basis by adding together similar items of assets, liabilities, equity, revenue and expenses. As the group should be presented as if it were a single organisation, it is necessary to:

- eliminate the parent's investments in the equity or liabilities of the subsidiaries and the parent's interests in the equity or liabilities of the subsidiaries, as well as other mutual investments and interests in the equity or liabilities of other organisation in the group, and to account for the related differences;
- eliminate intercompany operating receivables and operating liabilities;
- eliminate intercompany revenue and expenses;
- eliminate unrealised net profits and losses arising from intra-group transactions;
- account for taxes again on accrual basis;
- separately present non-controlling interests in equity, net profit (loss) and total comprehensive income.

To complete full consolidation, it is necessary to ensure that:
- uniform accounting policies are applied in the separate financial statements of subsidiaries for similar events;
- the items in the separate financial statements of the subsidiaries are presented in the same formal manner, or, if not, the subsidiaries prepare specific financial statements for consolidation purposes that differ from their official financial statements;
- the separate financial statements of consolidated organisations are prepared for the financial year ending at the same date, or, if this is not possible, restatements are made for the effects of significant events in the subsidiaries occurring during an interim period not longer than three months, or the subsidiaries prepare interim separate financial statements (which also applies to associates and joint ventures);
- the method of translation is determined to be used for translation from the foreign currency in which separate financial statements of the subsidiary are presented into the presentation currency of the parent organisation; as a rule, the reference rate of the European Central Bank (EBC) at the date of the financial statements is used for assets and liabilities, the average ECB rates at the time

of their accrual is used for revenue and expenses and, the rates effective at the time of accrual of individual equity items were used. Exchange differences arising from the use of different exchange rates shall be recognised in exchange differences reserves and other comprehensive income.

10.3 The process by which consolidation procedures are first performed, that is, when subsidiaries join the group, is referred to as the first-time consolidation or business combination (merger). The first-time consolidation shall be performed at the date when the parent's influence becomes predominant, not only directly but also through subsidiaries. The acquisition method is used to account for the first-time consolidation or business combination, and the method of carrying amounts of assets and liabilities of the acquired organisation may be used for micro-organisations. Section B 9 of the Introduction to the SAS and the SAS Framework provides detailed information on the first-time consolidation or business combinations (mergers).

In subsequent consolidations, changes in the parent's interests in the equity of the subsidiaries shall be verified first. If additional interests have been acquired, they shall be consolidated for the first time, and if they are disposed of, they shall be consolidated for the last and final time; it shall also be established whether or not the organisations are still subsidiaries.

On each subsequent consolidation, the initial translation adjustments have to be repeated and amended by new adjustments that change the opening balance. The recalculated positive and negative differences identified on the first-time consolidation shall be treated in the same way as the assets and liabilities, for which they were accounted for. The recalculated positive differences arising from depreciable assets shall be depreciated over the remaining useful lives of the assets to which they were allocated, and have to be written off if they become permanently impaired. When the assets to which the recalculated positive differences have been allocated, are disposed of, the recalculated positive differences allocated to them at the first-time consolidation shall be eliminated and written off at the point of disposal. The interests of the owners of a non-controlling interest in the equity of the subsidiary shall be accounted for each year anew. In the event that a subsidiary generates losses and these losses exceed the value of its equity at a point in time, the equity of the owners of the non-controlling interest may appear as negative equity in the group balance sheet. There are two options for the initial measurement of the non-controlling interest, namely measurement at fair value or measurement at a proportional share of the non-controlling interest of the net asset value (the latter option on a transaction-by-transaction basis).

Subsequent changes in, or transactions with, non-controlling interests that do not result in a loss of control shall be accounted for as transactions within equity (profits and losses are not recognised). In the event of a partial disposal of an investment in a subsidiary that results in a loss of control, the remaining interest shall be remeasured at fair value. Any difference between the fair value and the carrying amount represents a profit or loss on disposal that is recognised in profit or loss, and SAS 3 is applied accordingly to the remaining interest in the investment. When the parent or its subsidiary is an investor in an associate, the investment in the associate is accounted for in the consolidated financial statements using the equity method.

10.4 Under the equity method, an investment is initially recorded at cost and the carrying amount is increased or decreased to recognise the investor's share in the profit or loss of an organisation in which the investor has a significant influence that arises after the date on which the investment was made. The amount resulting from the distribution of net profit of an organisation in which the investor has a significant influence reduces the carrying amount of the investment. Restatement of the carrying amount may also be necessary if there is a change in the investor's proportional interest in the equity of another organisation, but those changes are not included in the income statement. Such changes include those resulting from the revaluation of property, plant and equipment, investments and

exchange differences. The application of the equity method to associates is also subject to the application of uniform accounting policies for similar transactions in the individual financial statements of the associates, otherwise consolidation adjustments are required when applying the equity method.

10.5 When the parent or a subsidiary is an investor in joint ventures, the investment in joint ventures shall be accounted for using the equity method in the consolidated financial statements. When the investment is made in joint arrangements that are classified as a joint operation, the assets, liabilities, revenue and expenses shall be recognised in the consolidated financial statements as set out in Section B 8 of the Introduction to SASs and the SAS Framework.

10.6 When significant influence or a joint venture is lost, the investment shall be remeasured at fair value, profit or loss shall be recognised in the income statement and the remaining investment shall be measured in accordance with SAS 3.

10.7 SAS 3 applies to any impairment of assets of subsidiaries and investments in associates and joint ventures.

10.8 When subsidiaries are held for sale, the assets and liabilities are measured in accordance with the applicable SASs. If the investment is made in an associate or a joint venture, the investment is measured in accordance with the applicable SASs.

(b) Disclosures

10.9 The provisions on disclosures in separate financial statements apply, mutatis mutandis, to the same extent to consolidated financial statements. The objective of disclosures in consolidated financial statements is to enable the user to evaluate:
- the nature of the investments and risks associated with the investments in subsidiaries, associates and joint ventures;
- the effects of such investments on the consolidated balance sheet, income statement and cash flow statement.

10.10 The consolidated financial statements shall disclose, at a minimum, the following matters regarding the influence:
- the reasons why a particular organisation has a dominant or significant influence or a joint venture is concerned;
- the reasons why, despite the existence of more than 50 % of voting rights, there is no dominant influence;
- the reasons why, despite the existence of less than 50 % of voting rights, there is a dominant influence;
- the reasons why, despite the existence of more than 20 % of voting rights, a significant influence does not exist;
- the reasons why, despite the existence of less than 20% of voting rights, a significant influence exists.

10.11 The following maters shall be disclosed, at a minimum, in the consolidated financial statements in respect of subsidiaries:
- the name of the subsidiary;
- the nature of the subsidiary's business;
- the non-controlling interests;
- the share in the profit or loss of the owners of the non-controlling interest;
- dividends paid to the owners of the non-controlling interest;

- the total amount of the non-controlling interest at the reporting date;
- financial information (assets, liabilities, revenue, expenses, profit or loss) of subsidiaries before the elimination of internal relationships;
- any restrictions on the exercise of a dominant influence in subsidiaries;
- changes during the reporting period in the interest of the subsidiary that do not result in a loss of a dominant influence;
- changes during the reporting period in the interest of the subsidiary that represents a loss in a dominant influence;
- any differences and reasons for differences in the reporting dates of individual subsidiaries within the group.

10.12 The consolidated financial statements shall disclose, at a minimum, the following matters in respect of associates and joint ventures:

- the name of the associate or joint venture;
- the nature of the business of the associate or joint venture;
- the ownership share in the associate or joint venture;
- dividends paid by associates and joint ventures;
- the fair value of associates and joint ventures, if any;
- significant financial information (assets, liabilities, revenue, expenses, profit or loss) for associates and joint ventures;
- disclosure about the use of the equity method (cost, write-up of profit and other comprehensive income);
- any restrictions on the exercise of a significant influence in associates or on the exercise of joint control in joint ventures;
- any differences and reasons for differences in the reporting dates of individual associates and joint ventures within the group.

10.13 The disclosures in RAR 10.10-10.12 apply to significant matters. In addition to the disclosures stated, disclosures should take into account any other disclosures if they are relevant to the user of the consolidated financial statements.

C Key Definitions

10.14 These Rules use some terms which need to be explained in order to define the key concepts.

(a) **A group of organisations** is an economic entity, but not a legal entity, and does not have rights and obligations in its own right. The group is presented in the consolidated financial statements as if it were a single organisation. The consolidated financial statements are prepared on the basis of the individual financial statements of the group organisations, with appropriate consolidation adjustments, which are not subject to recording in the accounting records of the group organisations. The group consists of:
- a parent or controlling organisation;
- organisations dependent on it for equity interests;
- organisations dependent on it for a dominant influence for other reasons.

(b) **A subsidiary** is an organisation that is controlled by another controlling organisation.

(c) **An associate** is an organisation in which the investor has a significant influence and that is neither a subsidiary nor a joint venture of the investor.

(d) **A joint venture** is a joint arrangement, usually of an organisation established by a number of joint venturers (parties to the joint venture) that have a right to the net assets of the joint venture. The joint venturers, by contractual agreement, jointly control the entire business of such an organisation.

D Clarifications

10.15 A parent controls a subsidiary if it is exposed to variable returns on its interest in the subsidiary or has rights to variable returns on its interest in the subsidiary and is able to affect those returns through the influence it has over the subsidiary. A parent has influence over a subsidiary if, by virtue of existing rights, it can currently direct significant activities of that subsidiary, i.e. activities that significantly affect the profitability of that subsidiary.

10.16 If an investor, directly or indirectly through subsidiaries, has 20 % or more of voting rights in the investee, it is presumed to have a significant influence unless it can be demonstrated beyond reasonable doubt that it does not have such an influence. The opposite is also true: if the investor, directly or indirectly through subsidiaries, has less than 20 % of voting rights of the investee, it is presumed not to have a significant influence unless it can be demonstrated beyond reasonable doubt that it does not have a significant influence. Evidence of an investor's significant influence is usually one or more of the following facts:
(a) representation on the board of directors or relevant decision-making body of the investee;
(b) participation in decision-making;
(c) significant transactions between the investor and the investee;
(d) interchange of senior management personnel; and/or
(e) the provision of material professional information.

E Date of Adoption and Effective Date

10.17 These Rules 10 were approved by the Council of Experts of the Slovenian Institute of Auditors at its session held on 11 December 2015. Organisations whose financial year is identical with a calendar year shall apply these Rules for periods beginning 1 January 2016, while other organisations shall first apply them for the financial year beginning after this date.

From the date on which these Rules come into effect, organisations shall cease to apply Section 13 – Consolidation of Accounting Data in Financial Statements in the Introduction to the Slovenian Accounting Standards (2006).