DISCLOSURE OBLIGATIONS RELATED TO THE BALANCE SHEET IN THE HUNGARIAN AND INTERNATIONAL ACCOUNTING

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Abstract: *Nowadays, the accelerated globalisation influences the behaviour of numerous economic operators; in this connection, it can be certainly said that the globalisation affects the accounting regulation as well. It can be said about each entity that the awareness is a sine qua non for the successful operation thereof. To obtain this, both the enterprise and its environment require a reliable and uniform information system so that the enterprises can be judged and assessed. This need is met by the accounting of enterprises which appears in Act C of 2000 on Accounting in Hungary and mainly in the standards of IFRS and US-GAAP in other countries. The Hungarian and international accounting rules are divergent from each other on numerous points. There is a criticism of reports appearing in the Accounting Act that the balance sheet and income statement include historical data thus the extractable information therefrom is less suitable for possible rapid interventions. However, its aim is not to do so but to include such information about the property, financial and profitability situation which are needed for the owners, investors and creditors in order to present a true and fair view; this is greatly facilitated by the Notes on the Accounts. The abovementioned criticism does not necessarily apply to the reports according to IFRS. In nature, the reports similarly pertain to a specific date i.e. the balance sheet date; however, the report itself tries to display the vision of the enterprise in several places. In my treatise, I will highlight a part of the report, namely the Notes on the Accounts, which provide text information in addition to the numerical data. In the Hungarian system, the Accounting Act includes the entities' compulsory elements in the Notes on the Accounts while the structure of IFRS is divergent from this: the disclosure obligations presented in the Notes on the Accounts relating to the given standard are defined at the end of each standard. Within this, I will present those mandatory disclosure obligations related to the balance sheet which are indispensable tools of informing the external and internal operators adequately.*

Keywords: *accounting report; disclosure obligations; Notes on the Accounts.*

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Generally Introduction

Today, rapid capital flows are characteristic in the economic life thus international borders are increasingly losing their importance as a result of the corporate relationships. Large multinational corporations are present anywhere in the world as well as ever greater capital is waiting for investment through the stock exchanges of the world. There are significant differences between the economic operators' accounting reports prepared according to the rules of their countries thus their performances which are difficult to compare by external operators. The main reason is that, as far as possible, a uniform accounting harmonisation takes place which

increasingly concerns Hungary as well (Beke, 2014). Furthermore, it can be said about each entity that the awareness is a sine qua non for the successful operation thereof. To obtain this, both the enterprise and its environment require a reliable and uniform information system so that the enterprises can be judged and assessed. This need is met by the accounting of enterprises which appears in Act C of 2000 on Accounting in Hungary and mainly in the standards of IFRS and US-GAAP in other countries.
Approached from one angle, accounting is an internal information system while, looked at from another angle, the principal function of accounting is to provide information towards the external environment in accordance with the legal requirements. Accounting Act determinates the following elements for those entities which are falling within the scope of that: bookkeeping and reporting obligations, principles to be compulsorily applied in the course of keeping the books and compiling the report, rules built on the aforementioned principles as well as the publishing, disclosing and auditing obligations. They provide the market operators with information ensuring a true and fair overall picture of the entities' property situation, assets and resources, the changes therein, financial and profitability situation as well as future plans (Böcskei, 2014; Musinszki, 2016). In addition to the numerical data disclosed as a part of the report, the Notes on the Accounts, which also include text information, can provide data and information required for the assessment, comparison and investment based on the accounting reports of enterprises. Accounting Act determines the mandatory data content of the notes on the account but it is not disclosed in sufficient detail in all cases. However, the Notes on the Accounts of the accounting reports prepared on the basis of the International Financial Reporting Standards and the Framework are more detailed.

1. Parts of the reports in Hungarian and international contexts

According to the requirements of Accounting Act, the annual report as well as the simplified annual report and the consolidated annual report shall compulsorily include the complementary, explanatory and evaluation Notes on the Accounts, in addition to the balance sheet and income statement. Consequently, the following elements are parts of the reports: the balance sheet; the income statement and the notes on the accounts; the business report which is not disclosed as a part of the report but at the same time therewith. Inter alia, the business report has information content about the future plans and opportunities. Since the Notes on the Accounts are indispensable tools in compiling a true and fair overall picture of the entity, these ones therefore include text explanation in addition to the numerical data. (Böcskei et al., 2015a). Furthermore, it is important to mention that the details of information in the Notes on the Accounts of different reports are dissimilar. While the Notes on the Accounts of the annual report are detailed and the Accounting Act specifies the mandatory content as well as the cash flow statement is also included, the Notes on the Accounts of the simplified annual report are less detailed and more generous as well as the source of information is limited (Kardos, 2009). There is a criticism of reports appearing in the Accounting Act that the balance sheet and income statement include historical data and pertain to a specific date i.e. the balance sheet date thus the extractable information therefrom is less suitable for possible rapid interventions. However, its aim is not to do so but to include such information about the property, financial and profitability situation which are needed for the owners,

investors and creditors in order to present a true and fair view; this is greatly facilitated by the Notes on the Accounts (Fenyves et al., 2015).
The abovementioned criticism, namely the reports are built on historical data and the enterprises' future plans and ideas are not presented, does not necessarily apply to the reports according to IFRS. In nature, the reports similarly pertain to a specific date i.e. the balance sheet date, however, the report itself tries to display the vision of the enterprise in several places, for instance Non-current Assets Held for Sale and Discontinued Operations represented in a separate row in the balance sheet as well as the obligations related thereto. Also, aim of the report is expressed from another view: the emphasis is on providing the stakeholders and potential investors with useful information and on the usefulness. Standard IAS 1 includes the parts of the financial statement which are not other than Statement of Financial Position, Statement of Total Comprehensive Income, Statement of Changes in Equity, the accounting policy and the list of Notes. In accordance with the requirements of Standard IAS1, Notes of the reports according to IFRS shall be systematic and reference therein shall be made to all items of the elements of financial statements. Given that the majority of the reports prepared according to IFRS are consolidated reports, the presentation of interests in other entities also plays a key role among the disclosures (Fenyves et al., 2015).

2. Ensuring a true and fair view according to the Hungarian and international requirements. Specific additions of Notes on the Accounts

Several articles in the Act C of 2000 on Accounting include those additions relating to the balance sheet and income statement that the company shall compulsorily share with the public. And, requirements of the standard relating to the item of the balance sheet and income statement shall include those elements which are compulsorily disclosed in the Notes of entities preparing reports according to IFRS.

Disclosure obligations related to fixed assets

Intangible Assets

In connection with the intangible assets, the following items thereof shall be disclosed in the report under the Hungarian law:

- Opening stock, increase, decrease and reclassification of gross value.
- Opening stock, increase, decrease and reclassification of accumulated depreciation.
- Amount of depreciation in the current year, broken down at least by balance sheet item as well as the method of the planned depreciation.
- Recognised and reversed accelerated depreciation.
- Opening value, increase, and decrease and closing value of value adjustment, broken down at least by legal title of property rights and intellectual products.
- Costs of research and experimental development in the current year (Baracskainé et al., 2003; BDO 2015)

In connection with the intangible assets, the company shall equally use general and special disclosure rules according to Standard IAS 38, which are as follows:

- Method for determining the useful life. Description of the applied amortisation methods. Gross value and accumulated amortisation at the beginning and end of the period.

- Reconciliation of the book value through movement table.
- Basis of forming the undetermined useful life.
- Limited and simultaneously significant intangible assets.
- Date of the asset evaluation. Book value of the revalued assets. Movements of the revaluation reserve.
- Intangible assets which are fully depreciated but still in use.
- Significant intangible assets which are under the control of the entity but not recognised as asset (Beke, 2014).
- Expenses incurred during the research and development as well as the costs of the research shall be debited to the result while the costs of the development shall be capitalised in all cases (this is not an option but an obligation).
- Presenting that 5 conditions of the recognition of experimental development as asset are met (whether it is technically feasible; whether there is the intention to realize; whether the technical, financial and other conditions are available; whether there is the ability to use or sell; whether it can demonstrably generate profits) (Fenyves et al., 2015).

Tangible Assets
In connection with the tangible assets, the following items thereof shall be disclosed in the Notes on the Accounts prepared on the basis of the Hungarian regulations:

- Opening stock, increase, and decrease and closing stock of gross value.
- Methods of accounting for depreciation. Opening stock, increase, and decrease and closing stock of accumulated depreciation. Amount and method of depreciation in the current year, broken down at least by balance sheet item as well as the method of the planned depreciation, Recognised and reversed amount of accelerated depreciation.
- Opening stock, increase, and decrease and closing stock of the recognised value adjustment, broken down by legal title (Böcskei et al., 2015b; Baracskainé et al., 2003).

The international accounting distinguishes the IAS 16 Tangible assets as well as the Investment properties falling under IAS 40. Furthermore, the following standards are also connected with the tangible assets: IAS 17 Leases, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance, IAS 23 Borrowing Costs, IAS 36 Impairment of Assets as well as IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.
Disclosures of Standard IAS 16 are as follows:

- In connection with the historical cost and the depreciation, the following items shall be presented: basis of assessment when determining the gross value; applied depreciation methods; useful life; depreciation rates; opening and closing values of the gross value and the accumulated depreciation; amount of the expenses of investments.
- Legal restrictions on the assets and their amount; assets and real estates serving as security i.e. collateral for the liabilities; obligations concerning the purchase of real estates, machinery and equipment.
- Basis and record date of the revaluation to fair value; index used when defining the replacement costs; book value of the asset before revaluation; amount of the revaluation reserve and the changes in stocks thereof.

- Additional information for the accounting estimates and the changes in accounting policy, Information of impairment, Book values of the temporarily unused assets and the assets held for disposal (Rózsa, 2015)

Disclosure obligations of Standard IAS 40:

- Whether the models of fair value or historical cost are used.
- Circumstances of the real estate included relating to an operating lease.
- Criteria for separating the individual real estates (investment property, owner-occupied property and property held for sale).
- Whether the assessment has been carried out by a qualified, recognised and independent asset evaluator.
- Method for determining the fair value and the assumptions used during the assessment.
- Revenue from renting out the investment property and the direct operating charges in case of the properties generating the income of the rent and the real estates not leased out.
- Movement table which deduces the closing book value from the opening value of the investment properties (Madarasiné – Bartha, 2016).

Fixed Financial Assets (Securities)

In connection with the fixed financial assets, the content provisions of the Accounting Act are as follows:

- Equally with regard to the long-term shares, long-term debt securities and long-term loans: amount of reclassifications, dividends received, related undertakings and ownership shares; futures, options and swaps; movement tables of recognised and reversed impairments and value adjustments (Baracskainé et al., 2003; Sallai, 2016).
- Groups and fair values of the financial instruments. Groups, extent (at contract value) and expiry date of the derivatives and the expected impact (fair value) thereof on the cash flow and the result. Changes of the current year in the revaluation reserve of the fair valuation. Effectiveness of the hedges; how large losses (or rather profits) have been offset in the equity. Total amount of the financial liabilities which are of importance for the purposes of assessing the financial situation but are not presented in the balance sheet. The nature, business purposes and financial impacts of those off-balance sheet items and agreements not included in the balance sheet whose arising risks or benefits shall be subject to a presentation in order to judge the financial situation of an entrepreneur (Fenyves et al., 2015).

The international accounting regulates the disclosure of financial instruments in the IFRS 7 IAS. It includes requirements for the entity that such disclosures shall be presented which enable the users to know how the financial instruments determine the entity’s financial situation and performance, the nature and extent of risks during a given period and when preparing the report as well as how the management manages the risks.

- The entity shall disclose the range and content of information related to the balance sheet. For instance, the groups of financial instruments and liabilities and the book values thereof. Disclosures related to the FVTPL assets and obligations as well as the FVTOCI financial assets. Reclassifications and derecognition of financial assets. The nature and extent of safeguards. Allowance account for credit losses. Characteristics of the capital, liability and embedded derivative. And, information of the non-compliances and breaches of contract.

- In connection with the income statement and equity, items of the revenue, expenses, profits and losses. Separating the individual financial instrument groups, detailing the result impacts of the given year. Furthermore, fee income and expense differing from the amounts in the effective interest rate reset.
- Other disclosure obligations of the enterprise are as follows: information related to the accounting policy; methods and information concerning the fair value; information of the hedge accounting, nature and extent of the risks arising from the financial instruments (qualitative and quantitative risk disclosures, credit risk, liquidity risk, market risk) (Lakatos et al., 2013; Madarasiné – Bartha, 2016).

Disclosure obligations related to current assets

Inventories

Mandatory content elements stipulated in Act C of 2000 in connection with the stocks, equally with regard to the inventories purchased and own-produced:

- Applied assessment procedures, the changes therein and the impact of changes on the results.
- By balance sheet item, the impaiment recognised and reversed in the given financial year (Jogtár, 2017).

Standard IAS 2 regulates the disclosure obligations of the inventories:

- Presenting the applied accounting policy for the inventory assessment and the method thereof.
- Grouping the inventories according to varieties.
- Summing the book values in total and by inventory group.
- Book value of the inventory recognised at net realisable value.
- Amount of inventories affecting the transit items.
- The amount recognised as a reversal of the impairment loss in the given period, outlining the circumstances causing the reversal.
- Value of inventories reserved for covering the liabilities.
- The value of inventories recognised as expenses in the given period (Beke, 2014).

Receivables

According to the requirements of the Hungarian accounting act, the presentation of receivables in the Notes on the Accounts is as follows:

- Assessment of the evolution of items of the receivables; elements concerning the accounting policy receivables, the changes therein and the affects thereof on the results.
- Considerable amount of faults explored during the verification, broken down by year.
- Original registration value of receivables broken down at least by balance sheet item.
- Amount of accumulated depreciation recognised and reversed in the business year, broken down at least by balance sheet item.

- In the balance sheet rows ‘Long-term loans in the related undertaking’ and ‘Receivables against the related undertaking, how many receivables are there against the parent companies and the subsidiaries?
- In connection with the foreign establishments, amount of the receivables arising from the foreign management.
- Amount of advances and loans paid to the senior officials, management body and the supervisory committee members; the guarantees on their behalf, combined by group; simultaneous communication of the interest, substantial other conditions; repaid amounts and conditions of the repayment (Andor – Tóth, 2017)

Disclosure obligations of receivables according to IFRS

- Amount of the trade receivables in the given financial year as well as the impairment loss thereof
- Impairment loss of trade receivables broken down by legal title
- Distribution of trade receivables according to aging
- Value and effective interest of loans
- Gross value of other receivables and evolution of impairment loss thereof
- Value of receivables arising from financial and operative leases

Disclosure obligations related to equity

In connection with the equity, disclosure obligations under the Hungarian Accounting Act:

- Changes in equity within one year and the reasons thereof, particularly with regard to the subscribed capital.
- In the subscribed capital, value of amounts subscribed by the parent company, subsidiary, jointly controlled company and associated company as well as the changes there.
- In case of public limited company, number and nominal value of the issued shares, by share variety.
- Number and nominal value of the issued convertible bonds.
- Value adjustment thus the evaluation of the revaluation reserve; valuation methods.
- Committed reserves by legal title; reasons for commitments if those ones are not based on statutory requirements.
- Those amounts which, as a result of the assessment, are adjustment items when determining the corporate tax as well as the future impacts thereof if these are of transitional nature.
- Method of calculating the dividend payment.
- Whether the amount of dividend approved for payment is more or less than the amount suggested by the senior official; the non-accepted amount shall be presented while the accepted amount appears in the appropriate row of the balance sheet and income statement (Jogtár, 2017; Kardos, 2009)

In the international accounting, there is no separate standard concerning the equity but the disclosure obligations thereof are as follows:

- Number and nominal value of ordinary shares of the subscribed capital
- Method of calculating the dividend payment.
- Presenting the changes in other reserves.

Disclosure obligations related to provision

According to the Hungarian Accounting Act, in case of the provisions, amount of the reserved provisions and uses shall be disclosed by legal title in the Notes on the Accounts and the justification thereof if there are significant differences from the previous years.

In the international accounting, Standard IAS 37 standard falls within the scope of regulation of provisions and suspense items. Their disclosure obligations are much more detailed than the ones in the Hungarian accounting.

According to the standard, the following information shall be disclosed related to the provisions:

- Provisions by group; opening and closing value thereof by legal title; changes thereof in stock in the current period, by legal title.
- Amount of provisions used and released during the period, by group.
- Increase during the period in the discounted amount arising from the passage of time; effect of changes in discount rate.
- Expounding the nature of liabilities and the pace of the outflow of economic benefits arising therefrom.
- Uncertainties related to the amount and schedule outflows; assumptions related to the future events.
- Amount of any expected returns (Madarasiné – Bartha, 2016).

Disclosures related to the contingent liabilities:

- Groups and short presentation of the contingent liabilities.
- Estimated financial effects of their fulfilments. Uncertainties related to the outflow of assets. Possibility for returns (Lakatos et al., 2013).

If the inflow of assets is likely in connection with the contingent liabilities, the entity shall disclose the following:

- Nature and short presentation of the contingent liabilities.
- Expected financial effect (Lakatos et al., 2013).

Disclosure obligations related to liabilities

In connection with the subordinated long-term and current liabilities, an entity has the following disclosure obligations in the Notes on the Accounts:

- Subordinated and long-term liabilities against the related undertakings.
- Total amount of those liabilities whose residual maturity is more than 5 years.
- In order to present the financial risks, those liabilities whose duration is more than 5 years, or liabilities secured by pledge or other similar rights.
- Item reclassified from long-term liabilities to current liabilities, owing to the due within one year.
- Amount of those financial liabilities which are of great importance for the purposes of assessment, mainly the future pension liabilities, redundancy liabilities as well as liabilities against the related undertakings.
- Debts due to bond issuance or other liabilities and debts of bill of exchange.
- Amount of contingent and certain future commitments by legal title.

- Off-balance sheet items and items not included in the balance sheet, the risk arising therefrom is significant and substantial. (Baracskainé et al., 2003; Kardos, 2009; Sallai, 2016)

In the IFRS, there is no separate standard created for the liabilities but mandatory disclosures apply to the entity in the Notes, which are as follows:

- Amount of long-term loans broken down by legal title
- Items of long-term liabilities reclassified to current liabilities in the given year, owing to the due within one year.
- Evolution of the average interest rate of long-term loans.
- Items presented among the provisions can be reclassified to the liabilities.
- Suppliers and other liabilities broken down by legal title.
- Amount of short-term loans broken down by legal title.
- Evolution of the average interest rate of short-term loans.

Disclosure obligations related to accruals and deferrals

Disclosure obligations of an entity according to requirements of the Hungarian Accounting: Act:

- In case of an entity preparing simplified annual report, details of 'Accruals and deferred income' and 'Accruals and prepaid expenditure'.
- In case of negative goodwill, details thereof if the write-down is longer than 5 years.
- Reasons for impairment loss of 'Accruals and prepaid expenditure'.
- Presenting the debt of bill of exchange and the interest therewith.
- Accrued amount of the unrealised exchange losses.
- Amount of the deferred income and expenses (Jogtár, 2017).

In the IFRS, the accruals do not appear in a separate row. Those ones are presented in the same row as the receivables and current liabilities and the companies specify the content of individual rows as well as significant elements thereof in the Notes (PWC, 2015).

Conclusion

The main goal of each enterprise is the successful operation and its essential tool is the adequate acquisition of information. This is facilitated by the Notes on the Accounts in the accounting system of any country; its aim is the systematic disclosure of such information about the enterprise which assists the market operators analysing the report to create a true and fair picture of the enterprise's property, financial and profitability situation. Both in Hungary and at international level, Notes on the Accounts in different detail are belonging to the different reports. In our country, in the course of an amendment introduced on 1 January 2016, the disclosure data content was expanded but it still does not reach the volume which is required by the standards of IFRS. In this respect, the aim would be that the market operators can obtain every numerical and text data, information and explanation about the enterprise which are needed in order to assess the management adequately.

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