

APSKAITOS IR FINANSŲ MOKSLAS IR STUDIJOS: PROBLEMOS IR PERSPEKTYVOS  
SCIENCE AND STUDIES OF ACCOUNTING AND FINANCE: PROBLEMS AND PERSPECTIVES

eISSN 2351-5597. 2017, vol. 11, no 1: 52-60

Article DOI: <https://doi.org/10.15544/ssaf.2017.06>**COMPARISON OF LEGAL ENTREPRENEURSHIP FORMS FROM  
ACCOUNTING POINT OF VIEW IN CONDITIONS OF THE SLOVAK  
REPUBLIC****Ivana Váryová, Iveta Košovská***Slovak University of Agriculture in Nitra, Slovakia***Abstract**

Each legal form of entrepreneurship requires the individual approach from the accounting point of view as every entrepreneur subject does not meet the definition of an accounting entity pursuant to the Act on Accounting. The paper's aim is to compare the legal entrepreneurship forms from accounting point of view and to assess different alternatives of expense verifiability. The theoretical research has been applied for reaching the paper's aim. Basic input materials are legal norms. Generally accepted basic research were used when preparing the article. Based on the results it can be stated that entrepreneurs registered in the Business Register do not have a possibility to select from individual alternatives of keeping the evidence for their management and are obliged to keep the system of double entry bookkeeping. Natural persons are not obliged to register in the Business Register therefore they can select from various possibilities of verification of incurred expenses. One feasibility is presented by the system of double entry bookkeeping or single entry bookkeeping. The systems of keeping tax records or applying fixed expenses are others. The keeping of tax records is less administrative intensive compared to bookkeeping. Keeping of tax records is advantageous for an entrepreneur as he is not the subject of the Act on Accounting while he is not an accounting entity. The easiest alternative for the entrepreneurs is not to verify real incurred expenses but to apply fixed expenses in the amount of 40 % from achieved income.

Keywords: legal entrepreneurship form, accounting, tax records, fixed expenses.

JEL Codes: M41.

**Introduction**

Entrepreneurship is an activity by means of which entrepreneurs can realize their plans and imaginations. Pursuant to the Commercial Code No. 513/1991 Coll. with the latest amendments (hereinafter referred to as „Commercial Code”) business shall mean systematic activities, which are independently conducted for the purpose of making a profit by an entrepreneur in his own name and at his own responsibility. Entrepreneur is:

- a party registered in the Business Register,
- a party conducting business pursuant to a Trading License,
- a party conducting business pursuant to an authorization other than Trading License pursuant to special legislation,
- an individual engaged in agriculture, who is entered in a register of self-employed farmers.

Commercial companies are mandatory registered in the Business Register (company with limited liability, Joint Stock Company, partnerships, limited partnership, cooperatives, other legal persons stipulated by a special legislation, legal persons founded pursuant to the regulations of European Communities and non-resident persons. Natural persons are register in the Business Register voluntary at own request or if it is stipulated by a special legislation.

Entrepreneurship is considerably a risk activity therefore an entrepreneur shall utilize all information which reduces the level of entrepreneurship risk. The most essential information is provided by the accounting. According to Baštincová (2014) the accounting provides closed, internally arranged system of information about business and its result expressed in cash. The accounting task is to truly express, record and disclose company economic reality (Látečková et al., 2014, Pakšiová and Janhuba, 2012). Information provided by the accounting with its features is invaluable as regards the taxation requirements (Krajčírová and Ferenczi Vaňová, 2016). The providing of verifiable data for tax administrators requirements is the oldest function of accounting, states Baštincová (2016).

Bookkeeping is under various requirements. In order to apply them it is indispensable to determine rules according to which an entrepreneur is obliged to bookkeep. Basic legal norms adjusted by the accounting in the Slovak Republic are the Commercial Code, the Act No. 431/2002 Coll. on Accounting with the latest amendments (hereinafter referred to as “the Act on Accounting”) and the measure of the Ministry of Finance of the Slovak Republic.

The Commercial Code contains the arrangements of accounting for entrepreneurs because of the complexity of entrepreneurship regulation as the bookkeeping is inseparable part of entrepreneurship (Šlosárová et al., 2016). Pursuant to the Commercial Code entrepreneurs registered in the Business Register are obliged to bookkeep to the extent and in a manner stipulated in the Act on Accounting. The Business Register determines two various applicable system of bookkeeping:

1. the system of double entry bookkeeping which is mandatory for entrepreneurs registered in the Business Register,
2. the system of single entry bookkeeping which is for entrepreneurs not registered in the Business Register

(these entrepreneurs may keep the system of double entry bookkeeping if they decide and bookkeep in the whole accounting period).

The Act on Accounting is generally binding legal norm for all accounting entities which treats the current accounting and the financial statements in the system of double entry as well as single entry bookkeeping. Pursuant to the Act on Accounting these subjects are obliged to keep accounting:

- Legal person having their registered offices in the Slovak Republic,
- Non-resident persons doing business or conducting other activities in the Slovak Republic under separate regulations,
- Natural persons doing business or undertaking other independent earning activities where they report expenses incurred for acquiring, assuring and maintaining income in order to determine their income tax base under a separate regulation except for natural persons who keep tax records pursuant to the Act No. 595/2003 Coll. on Income Tax with the latest amendments (hereinafter referred to as “the Income Tax Act”).

The measures which are for the accounting area issued by the Ministry of Finance of the Slovak Republic follow on the Act on Accounting. Measures are lower legal norms which stipulate details of accounting procedures and of the arrangement, marking, and content specification of items of the financial statements.

Each legal form of entrepreneurship requires the individual approach from the accounting point of view as every entrepreneur subject does not meet the definition of an accounting entity pursuant to the Act on Accounting. It relates mainly to natural persons who except for bookkeeping have a possibility to verify their real incurred expenses by means of keeping tax records pursuant to the Income Tax Act. Simultaneously the Income Tax Act enables to natural persons who decide not to deduct verifiable tax expense, deduct expenses by the percentage from the sum of achieved income, so called fixed expenses. Natural person keeping tax records or applying fixed expenses is not treated as an accounting entity pursuant to the Act on Accounting.

The paper’s aim is to compare the legal entrepreneurship forms from accounting point of view and to assess different alternatives of expense verifiability.

## Materials and Methods

The theoretical research has been applied for reaching the paper's aim. Basic input materials are following legal norms except for professional literature:

- Act No. 513/1991 Coll. Commercial Code with the latest amendments,
- Act No. 431/2002 Coll. on Accounting with the latest amendments,
- Act No. 595/2003 Coll. on Income Tax with the latest amendments,
- Measure Of the Ministry of Finance of the Slovak Republic of 16 December 2002 No. 23054/2002-92, on stipulation of details of accounting procedures and framework chart of accounts for entrepreneurs keeping double-entry accounting,
- Measure Of the Ministry of Finance of the Slovak Republic No. MF/27076/2007-74, on stipulation of details of accounting procedures and defining details of the arrangement, marking, and content specification of items of an individual financial statement for entrepreneurs using single entry bookkeeping, doing business or undertaking other independent earning activities where they report expenses incurred for acquiring, assuring and maintaining income in order to determine their income tax base with the latest amendments (hereinafter referred to as “accounting procedures in single entry bookkeeping”).

Data required for presenting the development of selected legal forms have been acquired from the database of the Statistical Office of the Slovak Republic. The observed period is the period of years 2011 – 2015, for which the data are at disposal.

Generally accepted basic research methods consisting of selection, analysis, synthesis, induction, deduction and comparability were used when preparing the article. The mentioned methods present the basic methodical attitude to the article.

## Results

One of the most essential decisions when starting a business is the selection of legal form of entrepreneurship. The most preferable entrepreneurship form in the Slovak Republic is the entrepreneurship of natural persons presented by sole proprietorship. There exist several reasons for the selection of this legal form while the simplicity of foundations and low capital requirements are considered to be the most crucial ones.

**Table 1. Advantages and Disadvantage of Sole Proprietorship**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Simplicity and flexible organizational structure.</li> <li>• Low capital requirements for foundation.</li> <li>• Profit is at disposal of a sole proprietor.</li> <li>• Possibility of self-realisation in decision making process.</li> </ul>	<ul style="list-style-type: none"> <li>• Unlimited liability by the whole property.</li> <li>• Difficulties in acquiring of capital sources.</li> <li>• Vulnerability of company management.</li> <li>• High physical and mental strain.</li> </ul>

(Source: own processing)

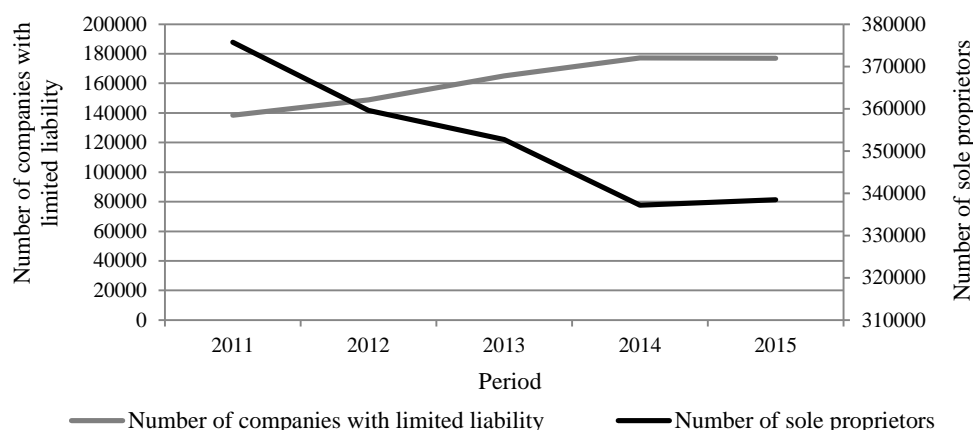
The second mostly applied legal form is the company with limited liability which is the most preferable entrepreneurship form within commercial companies. The foundation of this company is financially more intensive in comparison with sole proprietorship as it is indispensable to create a share capital in the amount of 5 000 EUR in minimum. Nevertheless the entrepreneurship within company with limited liability brings another advantage and it is the liability for commitments only by the company property respectively to the amount of unpaid partner contribution. Therefore the entrepreneur is not the subject of high risk as in case of sole proprietorship.

**Table 2. Advantages and Disadvantage of Company with Limited Liability**

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• The amount of share capital is relatively low.</li> <li>• When not meeting all business commitments the company is liable to the amount of its property.</li> <li>• Partner is responsible for company liabilities to the amount of his unpaid contribution.</li> <li>• Company can be founded by one partner (natural or legal person).</li> <li>• Simple organizational structure.</li> </ul>	<ul style="list-style-type: none"> <li>• Obligation of legal reserve fund creation.</li> <li>• Decreased ability to acquire the bank loan in case of low share capital.</li> <li>• Limited number of partners (max 50).</li> <li>• Partner shall not get off the company by unilateral act.</li> </ul>

(Source: own processing)

In the observed period of years 2011 – 2015 the number of sole proprietors decreased. Vice versa trend was in case of companies with limited liability. This situation is presented by Figure 1 where might be seen the imaginary gap between the number of sole proprietors and the number of companies with limited liability. The reason why the majority of sole proprietors cancels their licence for sole proprietorship and move to another legal form of entrepreneurship is mainly the increase in social and health contributions, taxes and subsequently the total handicap of sole proprietorship.



**Figure 1. Development Comparison of Number of Sole Proprietors and Companies with Limited Liability**

(Source: Statistical Office of the Slovak Republic and own processing)

Each legal form of entrepreneurship has its particularities which makes it advantageous or disadvantageous in comparison with other legal forms. An important factor influencing the choice of legal entrepreneurship forms is accounting.

Commercial companies are mandatory registered in the Business Register and are accounting entities pursuant the Act on Accounting, i.e. are obliged to keep the system of double entry bookkeeping. Natural persons if not stipulated by a separate legislation, are not obliged to register in the Business Register, therefore are not obliged to keep the system of double entry bookkeeping. In case a natural person decides on own request to register in the Business Register, pursuant the Commercial Code it is binding to keep the system of double entry bookkeeping.

Natural persons who are not registered in the Business Register shall decide whether they report expenses incurred for acquiring, assuring and maintaining income in order to determine their income tax base or they do not report their real incurred expenses. In case they decide to apply real incurred expenses they can verify them by means of keeping the accounts or keeping the tax records pursuant to the Income Tax Act. Keeping the accounts can be in the system of single entry bookkeeping or they might keep the system of double entry bookkeeping instead of the system of single entry bookkeeping unless they keep it during the whole accounting period. This exception relates to the recognition of the system of double entry bookkeeping as the more qualitative form in comparison with the system of single entry bookkeeping. If natural persons not registered in the Business Register decide not to report their real expenses incurred for acquiring, assuring and maintaining income they can apply so called fixed expenses pursuant to the Income Tax Act.

Natural persons are considered to be accounting entities only in case if they keep the system of double entry or single entry bookkeeping. In case a natural person applies fixed expenses or keeps tax records, he is not an accounting entity pursuant to the Act on Accounting.

Based on the above mentioned it can be summarized that natural persons might select from four possible alternatives of their expense verifiability for the purpose of tax base determination, namely:

1. keeping the system of single entry bookkeeping,
2. keeping the system of double entry bookkeeping,
3. keeping of tax records,
4. applying of fixed expenses.

The next part of article assesses and compares individual alternatives of expenses verification with the determination of their advantages and disadvantages.

### **Single Entry Bookkeeping System**

The system of single entry bookkeeping is adjusted by the Act on Accounting and accounting procedures in single entry bookkeeping. An entrepreneur keeping the system of single entry bookkeeping records within the whole accounting period data about:

- state and movement of assets and liabilities,
- difference in assets and liabilities,
- income and expenses,
- profit or loss.

The specific feature of single entry bookkeeping is the cash principle. Income and expenses are recorded therefore the cash flow is essential. As regards the system of single entry bookkeeping, it is not necessary in which period e.g. the service has been rendered, but when it has been paid. This principle influences the calculation of income tax base. The difference of received income and paid expenses is decisive influencing the income tax base. The system of single entry bookkeeping system is mainly following tax acts.

Pursuant the Act on Accounting an entrepreneur keeping the system of single entry bookkeeping accounts for in the following accounting books:

- cash receipts journal,
- receivables ledger,
- liabilities ledger,
- subsidiary ledgers.

Bookkeeping in cash receipt journal, receivables ledger, liabilities ledger is obligatory for each entrepreneur. Subsidiary ledgers are kept only in case their keeping is indispensable for verification and disclosure of accounting subject in the financial statements. The example might be a subsidiary liabilities ledger for employment relationships and others.

Keeping of single entry bookkeeping results in the financial statements consisting of two statements:

1. Assets and liabilities statement – comprises of closing balances of fixed assets, inventory, liabilities and receivables.
2. Income and expenses statement – includes taxable income and tax expenses in type classification.

The advantage of single entry bookkeeping is its simplicity. It can be stated that this advantage might be as well a disadvantage in several cases. Its simplicity causes the occurrence of mistakes. An entry in one accounting book is not automatically conditioned by an entry in another accounting book; therefore individual entries shall not be crossly checked. The further disadvantage of the system of single entry bookkeeping is considered to be the fact that data of cash receipts journal are not enough concrete for management needs. The structure of tax expenses in cash receipts journal is frequently insufficient so the necessity of keeping operative evidence is crucial.

### **Double Entry Bookkeeping**

Pursuant the Commercial Code the system of double entry bookkeeping is kept by those entrepreneurs who are registered in the Business Register. The Commercial Code allows to keep the system of double entry bookkeeping to those entrepreneurs who are not registered in the Business Register, natural persons, while they shall account for the whole accounting period.

The system of double entry bookkeeping records:

- state and movements of assets and liabilities,
- difference in assets and liabilities (equity),
- revenues and costs,
- income and expenses,
- profit or loss.

The profit or loss is calculated as the difference of revenues and costs in the system of double entry bookkeeping. In comparison with the system of single entry bookkeeping the crucial difference is that the cash flow is not essential in the calculation of profit or loss in the system of double entry bookkeeping.

In the system of double entry bookkeeping the cash management accounting is not selected from the accounting of assets and liabilities therefore the following accounting books are kept:

- General ledger, where accounting entries is managed systematically and in accordance with the content on synthetic and analytical accounts.

- Journal, in which accounting entries are managed in a chronological order.

The system of double entry bookkeeping results in the financial statements:

1. Balance sheet – informing about the structure of assets, liabilities and equity.

2. Profit and Loss Statement – contains revenues and costs in type classification according to which the calculation of profit or loss is performed.

3. Notes – including explanatory and subsidiary information on an accounting entity.

Bookkeeping in the system of double entry bookkeeping is more difficult in comparison with the system of single entry bookkeeping because the same accounting transaction is recorded twice. This might be considered to be a disadvantage as the control relation is more essential in comparison with the system of single entry bookkeeping.

A further advantage of the system of double entry bookkeeping is a higher concreteness and simultaneously concerned explanatory ability. By means of analytical evidence the movements of individual accounts might be observed according to entrepreneur requirements. Information provided by the system of double entry bookkeeping can serve for the requirement of operative management.

As a negative feature of the system of double entry bookkeeping is considered to be its administration and time intensity. The next negative characteristic is a fact that profit or loss and therefore the income tax base are calculated as the difference in revenues and costs regardless realized cash flows. In practice there might occur a situation that an entrepreneur is obliged to pay a tax from such an income which is not received and following might get to cash insolvency.

The manner of bookkeeping in particular systems differs on procedures, methods and applied methodical means but as well as on processing, recording and presentation of events and transactions. The comparison of bookkeeping systems is presented in Table 3.

**Table 3. Comparison of Single and Double Entry Bookkeeping Systems**

Criterion	Single entry bookkeeping	Double entry bookkeeping
Who might keep single and double entry accounting	Selected accounting entities pursuant the Act on Accounting	All accounting entities (obligatory those persons registered in the Business Register)
Accounting books	Cash receipts journal Receivables ledger Liabilities ledger Subsidiary ledger	General ledger Journal
Financial Statements	Income and expenses statement Assets and liabilities statement	Balance sheet Profit and loss statement Notes
Accounting transaction and accounting entry	Accounting transaction is recorded by a simple entry directly in an accounting book	Accounting transaction is recorded by means of double accounting entry on accounts
Accounting on cash effectiveness and accounting on assets and liabilities	Accounting on cash effectiveness is separated from accounting on assets and liabilities	Accounting on cash effectiveness is not separated from accounting on assets and liabilities
Range of accounting evidence	Within an accounting period only income and expenses are observed, i.e. cash flows and their influence in an income tax base	Within an accounting period all transactions and events are recorded, even those which do not cause the movement of cash
Calculation of profit or loss	Profit or loss is calculated as a difference of taxable income and tax expenses in a particular accounting period	Profit or loss is calculated as a comparison of costs and revenues for a particular accounting period
Calculation of income tax base	Income tax base equals to profit or loss, i.e. is calculated as a difference in taxable income and tax expenses	Income tax base is calculated out of the accounting system (requirements of tax acts are expressed by means of non-deductible and deductible items)
Information value	Lower information value of accounting data	Higher information value of accounting data
Administration requirements	Lower administration requirements	Higher administration requirements
Relation to tax acts	Single entry bookkeeping is crucially following tax acts	Relative independence from tax acts requirements

(Source: own processing)

## Tax Records

Tax records are inherently similar to the system of single entry bookkeeping. The task of tax records is to provide required data to the determination of income tax base and the calculation of income tax of natural persons. Effective from 1 January 2014 several terms have been cancelled which limited the number of entrepreneurs who might keep tax records. Till the end of year 2013 it was defined that tax records shall be kept by those persons who have income from entrepreneurship, independent earning activities, rent, use of work and artistic performance and at the same time they met the below mentioned three conditions:

1. above mentioned activities were self performed (without employees),
2. for the prior tax period they did not exceed the income 170 000 EUR,
3. applied verifiable expenses for income.

Since 1 January 2014 the first two conditions shall not be met in order to keep tax records by persons with the above mentioned income. An entrepreneur shall keep tax records even he employs some employees and his income exceeds 170 000 EUR in the prior tax period. At the same time an entrepreneur who keeps tax records, might be a value added tax payer.

Exactly defined form and structure of keeping tax records is not legally determined by the Income Tax Act. The Income Tax Act determines only the content of tax records and simultaneously items which are obligatory recorded. Pursuant to the Income Tax Act tax records record the data about:

- income and tax expenses in a chronological order including received and issued documents which met the requirements of accounting documents,
- assets (fixed and intangible) used for entrepreneurship,
- inventory, liabilities and receivables.

When keeping tax records it is indispensable to record achieved income irrespective of their including or not including in income tax base. As regards expenses these comprise of tax expenses in comparison with income.

Keeping of tax records is advantageous for an entrepreneur as he is not the subject of the Act on Accounting while he is not an accounting entity. An entrepreneur shall not open even close accounting books, perform inventory, disclose financial statements, create depreciation plan for accounting depreciation and as well as shall not calculate foreign exchange differences. An entrepreneur is not the subject of sanctions concerning not meeting the regulations of the Act on Accounting. An entrepreneur is obliged to meet all regulations of the Income Tax Act.

## Applying of Fixed Expenses

Fixed expenses present fixed amount of all entrepreneur expenses. This amount might be increased by the amount of paid insurance and contributions to the Social Insurance and a particular Health Insurance. Fixed expenses shall be applied only by an entrepreneur who is not the value added tax payer.

Effective as at 31 December 2016 pursuant to the Act on Income Taxes a taxpayer shall apply expenses in the amount of 40 % from achieved income, not exceeding the amount 5 040 EUR annually. While a taxpayer undertook only the part of taxable period, he paid the monthly limit of fixed expenses in the amount 420 EUR. As regard tax optimization fixed expenses were suitable for those entrepreneurs whose income did not exceed the amount of 12 600 EUR (while the expenses in the amount of 40 % not exceeding the limit determined by the Income Tax Act in the amount of 5 040 EUR per year corresponded to this sum of income) or those entrepreneurs whose real and verifiable expenses were lower than the fixed expenses.

The amendment of the Act on Income taxes effective as at 1 January 2017 the percentage rate of fixed expenses has increased from 40 % to 60 % from the achieved income. The annual limit of fixed expenses has increased from 5 040 EUR to 20 000 EUR. This maximal annual limit shall be applied by all entrepreneurs regardless whether they undertake the whole year or only its part, i. e. the monthly limit 420 EUR was cancelled. Since the year 2017 the fixed expenses shall be applied by the majority of sole proprietors in comparison with the prior period. In accordance with the estimate of the Ministry of Finance of the Slovak Republic the positive effect might be expected approximately on 60 000 entrepreneurs. The fixed expenses will be advantageous mainly for those entrepreneurs whose income does not exceed the amount 33 333 EUR (while the expenses in the amount of 60 % not exceeding the limit determined by the Income Tax Act in the amount of 20 000 EUR per year corresponded to this sum of income). The fixed expenses are the advantageous tool of tax expenses application as well for those entrepreneurs who achieve the high income at low real expenses (e.g. programmers, graphic designers, translators, writers, other freelancers, and others).

Within the period of applying the fixed expenses the Income Tax Act stipulates the obligation to keep records about:

- income in a chronological order,
- inventory,
- receivables.

The advantage when applying the fixed expenses is lower administration requirements as in case an entrepreneur decides to deduct real expenses.

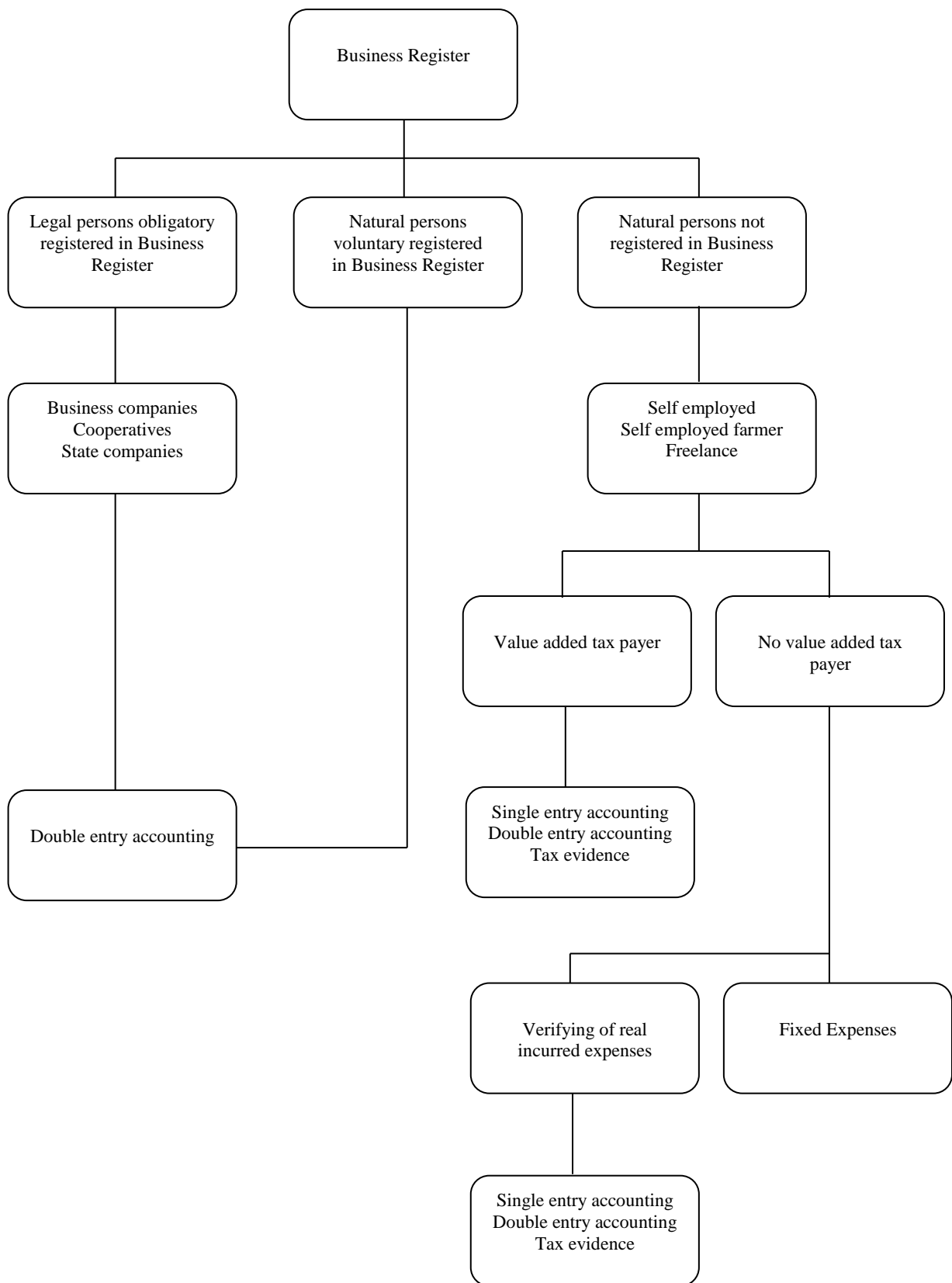
The following Table 4 compares the individual aspects of the system of single entry bookkeeping, tax records and fixed expenses.

**Table 4. Comparison of Single Entry Bookkeeping, Tax Records and Fixed Expenses**

Criterion	Single entry bookkeeping	Tax records	Fixed expenses
Maximum of income	Not limited	Not limited (Effective from 1. 1. 2014, till 31. 12. 2013 the maximum of income was 170 000 EUR)	Not limited (indirectly deriving from turnover for the registration to value added taxpayer, i.e. 49 790 EUR)
Employment of employees	Yes	Yes (Effective from 1. 1. 2014, till 31. 12. 2013 the condition to perform the activity alone without employees)	Yes
Valued added taxpayer	Yes	Yes	No
Keeping of accounting books	Yes	No	No
Inventory of assets and liabilities	Yes	No	No
Calculation of foreign exchange differences	Yes	No	No
Disclosure of Financial Statements	Yes	No	No
Evidence	Accounting books: cash journal, receivables book, liabilities book, other books	Evidence on income and taxable expenses chronologically, evidence on fixed and intangible assets, inventory and receivables	Evidence on income chronologically
Legal arrangement by the Act on Accounting	Yes	No	No
Legal arrangement by tax acts	Yes	Yes	Yes
Taxable expenses	Real and verifiable	Real and verifiable	Fixed expensed in the amount 60 % from achieved income
Legislation sanctions	Act on Accounting , tax acts	tax acts	tax acts

(Source: own processing)

Based on the mentioned results it can be stated that entrepreneurs registered in the Business Register do not have a possibility to select from individual alternatives of keeping the evidence for their management and are obliged to keep the system of double entry bookkeeping. Natural persons are not obliged to register in the Business Register therefore they can select from various possibilities of verification of incurred expenses. One feasibility is presented by the system of double entry bookkeeping. The systems of single entry bookkeeping, keeping tax records or applying fixed expenses are others. Well-arranged display of various feasibilities of management evidence for individual legal forms is determined in the following Figure 2.



**Figure 2. Entrepreneurship Legal Forms in Accordance with Possibilities to Keep Various Accounting and Evidence**

(Source: own processing)



## Conclusions

Each of the legal entrepreneurship forms is specific and there exist variety of crucial differences between them. The situation of each entrepreneur is indispensable to be treated individually, recalculate it on the concrete figures and simultaneously make the particular decision.

The decision of natural persons on keeping the system of single entry or double entry bookkeeping is influenced by several facts about particular systems. As regards the system of single entry bookkeeping the occurrence of mistakes is higher, a cross control is not possible since there is not a duality of accounting entries. Data on tax expenses are not concrete. The system of single entry bookkeeping is more suitable for an entrepreneur who need more detailed and concreted evidence of expenses. Total information value of data from the system of single entry bookkeeping is low. The system of double entry bookkeeping is more suitable in order to assess the total company management. It has a higher explanatory ability by means of the analytical evidence. The keeping of the system of double entry bookkeeping can cause higher expenses to small entrepreneurs.

The keeping of tax records is less administration intensive. Tax records follow tax acts therefore it is not indispensable to perform inventory of assets and liabilities, prepare the financial statements and perform other obligations set by the Act on Accounting. Tax records are suitable for smaller entrepreneurs who do not require data evidence to the extent the accounting does.

The least demanding evidence is the applying of fixed expenses. It is crucial for an entrepreneur whether he is or is not the value added taxpayer. The value added taxpayer cannot apply fixed expenses; he is obliged to verify real incurred expenses by means of bookkeeping or tax records. The applying of fixed expenses is usually advantageous for an entrepreneur whose real expenses are lower than fixed expenses. For example it relates to an entrepreneur who needs fewer inputs for his activity and does not employ any employees.

Effective as at 1 January the percentage rate of fixed expenses has increased from 40 % to 60 % and the annual limit has increased from 5 040 EUR to 20 000 EUR. The increase in fixed expenses will result not only in lower income tax but as well as lower contributions to social and health insurance. The increase of fixed expenses can help also to those entrepreneurs who will not obtain lower taxes and contributions but it will manage them the transfer from bookkeeping or tax records to applying of fixed expenses so the administration requirements of entrepreneurship can decrease.

The before mentioned amendments in fixed expenses can be motivating for several entrepreneurs to change the legal entrepreneurship form. In combination with other advantages of entrepreneurship form of sole proprietorship it can be favourable for some entrepreneurs to transfer entrepreneurship activities from the company with limited liability to sole proprietorship. Transfer from the company with limited liability to sole proprietorship should be advantageous for those entrepreneurs who achieve high income at low real expenses.

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The article has been reviewed.

Received in October, 2016

Accepted in February, 2017

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