



## FINACONT TAX NEWSLETTER

Bookkeeping and financial statement preparation requirements of Hungarian subsidiaries of multinational corporations



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The Hungarian Tax and Customs Office and the Hungarian Chamber of Auditors have drawn the attention of the Hungarian subsidiaries of multinational corporations to the requirements of bookkeeping and financial statement preparation specified in the Accounting Act in a joint announcement.

Paragraphs (1)-(4) of Section 4, Paragraph (2) of Section 12, Paragraph (1) of Section 20 and Sections 159-160 of **Act C of 2000 on Accounting** provide **Hungarian companies subject to the law with following requirements** on financial statements prepared for a financial year and related accounting (main rule):

- after closing the books of the financial year the company **is required to prepare a financial statement** in Hungarian language, supported by bookkeeping specified in the Act on Accounting, on the company's operation and business, financial and income position;
- accounting records should be kept **in Hungarian language** in accordance with accounting principles, using single-entry or double-entry system;
- a company keeping double-entry books is obliged to operate an **accounting records system** on the assets it manages, uses or owns, and the sources thereof, as well as on its financial transactions which show the changes in assets and liabilities corresponding to the facts **on a continuous basis, in a closed system, and in a transparent manner;**
- in the books of the company **the standard chart of accounts specified in the Act should be used** to foster organizing the company's accounting system, by means of establishing a standard system of the company's assets and liabilities and the impact of the transactions on the profit/loss, as well as to provide basic information necessary for preparing financial statement in accordance with the Act on Accounting and the relevant government decree,
- **companies** having double-entry bookkeeping **are obliged to establish a system of accounts in accordance with the provisions related to the standard chart of**

accounts, containing facilities for preparing the financial statement in full compliance with the relevant provisions specified in the Act;

- **the financial statement should be prepared** in the structure and in the mandatory layout defined in the Act on Accounting, the items defined in Schedules No 1-3 in the sequence specified taking into account the rules for further breakdown or consolidation, it shall be supported by the relevant documents, **rely on the figures of properly maintained double-entry accounting** records, and shall be drawn up in a clear and concise form.

Based on the experience of the tax authorities some of the Hungarian subsidiaries of multinational corporations **do not fully comply with the abovementioned requirements of the Act on Accounting**. The accounting records supporting the financial statement defined in the Accounting Act are not kept in the Hungarian standard chart of accounts, but in a general ledger system used by the group and established on the basis of different accounting and reporting principles and are not kept in Hungarian language.

The company can meet the requirements of the Accounting Act only if GL records are kept in accordance with the Hungarian standard

chart of accounts in a closed accounting system rather than keeping these records outside the accounting system (in separate sheets/tables prepared and kept manually). **The fullness of the Hungarian general ledger data and its review during a tax inspection are not ensured if separate sheets/tables outside the accounting system are prepared and kept.**

If above regulations are not complied with, the provisions of the Act on Accounting will be breached and tax inspections also become more difficult. Furthermore, it will be also difficult for the auditor to give an opinion on the reliability of the financial statement and its compliance with facts, as the auditor is required to give its opinion in the context of the provisions of the Accounting Act.

**If the tax authority is unable to conduct the ordered tax inspection** due to the deficiencies of a closed and transparent accounting system meeting the above requirements, the tax authority may require companies to eliminate this deficiency, to generate the required accounting records in a system compliant with the Accounting Act and to present it to the tax authorities.

Please contact our colleagues if you wish to have a detailed interpretation of this legislation as this newsletter offers general understanding.

**2**

Should you have any questions, please do not hesitate to contact us.

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SIMPLIFYING ADMINISTRATION

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