

FASTER
**ICT – Financial and Accounting Seminars Targeting
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WP3
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Module 3

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Module 3: Accounting of joint stock company and limited liability company

Joint Stock Company and Limited Liability Company Accounting: Basic Definitions

- entrepreneurs: obliged to keep the accounts to the extent and in the manner stipulated by Act on Accounting
- entrepreneurs incorporated in the Companies Register: use the Double Entry Bookkeeping System
- partnership or a company: a legal entity established for the purpose of undertaking business
- partnerships and companies may have the following forms: a general commercial partnership, a limited partnership, a limited liability company and a joint-stock company

Basic Stages in the Company's Life

- **Establishment of a Company**

- on the base of a Memorandum of Association
- company's stock capital equal to the aggregate contributions in cash and in kind into the company pledged by all of its partners, members, or shareholders, expressed in monetary terms

- **Winding-Up and Deletion of a Company**

- officially cease to exist on the date on which it is deleted from the Companies Register (CR)
- company's deletion from the CR: preceded by its winding-up, either accompanied by its liquidation or not

Basic Stages in the Company's Life

- **Wounding up of a Company**

- a) upon the expiration of the period of time for which it was established;
- b) on attaining the purpose for which it was established;
- c) on the date which a resolution of the partners, members or shareholders or of the appropriate body has stipulated as the termination date;
- d) on the date specified in a court's ruling for the partnership or the company's winding-up;

Basic Stages in the Company's Life

- **Wounding up of a Company**

e) by a resolution of the partners on taking over, merging or dividing the partnership or the company; or,

f) by declaring bankruptcy proceedings or rejecting a petition in bankruptcy due to the lack of property.

LIMITED LIABILITY COMPANY (Ltd.)

- stock capital shall be made up of predetermined contributions pledged by its members
- Ltd. company may be established by 1 person, the maximum number of members of a limited liability company shall be 50
- liable for any breach of its obligations with its entire property
- each member's liability for the company's obligations shall be limited to the outstanding part of his pledged contribution

LIMITED LIABILITY COMPANY (Ltd.)

- **Memorandum of Association** must contain the following details:
 - a) the business name and the registered office of the company,
 - b) identification of the company's members, i.e. the business name plus the registered office of a legal entity and the name and the residence of an individual,
 - c) the scope of its business (activities),

LIMITED LIABILITY COMPANY (Ltd.)

- **Memorandum of Association** must contain the following details:
 - d) the amount of the stock capital and the amount of each member's contribution into the company upon its establishment and the manner and period for the payment of the pledged contributions (and the description of the contributed assets in case of contributions in kind),
 - e) names & addresses of the company's first executives and the manner in which they will represent the company,
 - f) the names and the addresses of the members of the first Supervisory Board, if established.

Ltd Co.: Members' Rights and Duties

- a member shall be obliged to pay up his pledged contribution
- the executives shall notify the Register Court of the full payment of each member's contribution
- the equity interest shall represent the rights and duties of a member and thereto-corresponding participation in the company, it shall be determined as a ratio between the member's pledged contribution to the company and the company's stock capital

Ltd Co.: Members' Rights and Duties

- a member may transfer his equity interest to another member
- upon the death of a member his equity interest shall be transferred to his heir

Ltd. Co: Company Bodies

- The General Meeting shall be the supreme body of the company. It shall be authorized:
 - a) to repudiate actions taken by the founders prior to the incorporation of the company,
 - b) to approve the annual financial statements, to distribute the profits and to cover losses,
 - c) to approve and to amend the company's Articles of Association,

Ltd. Co: Company Bodies

- The General Meeting shall be the supreme body of the company. It shall be authorized:
 - d) to decide on the amendments of the Memorandum of Associations,
 - e) to decide on the increase or the reduction of the stock capital,
 - f) to appoint, recall and remunerate company executives,

Ltd. Co: Company Bodies

- The General Meeting shall be the supreme body of the company. It shall be authorized:
 - g) to appoint, recall and remunerate members of the Supervisory Board,
 - h) to expel a member,
 - i) to decide on the winding-up of the company, if the Articles of Association so permit,

Ltd. Co: Company Bodies

Executives:

- 1 or several executives shall constitute a statutory body of the company
- executives shall be appointed from among company members or other individuals by the General Meeting

Ltd. Co: Company Bodies

Supervisory Board:

- a) supervise executives' activities,
 - b) inspect business & accounting books & other documents & check the data therein contained,
 - c) review the annual financial statements,
 - d) submit reports to the General Meeting (GM) within the dates set forth in the Memorandum of Association, otherwise once a year.
- members of the SB: elected by the GM

Ltd. Co: Winding-Up and Liquidation of a Company

- the company may be wound up by the court's ruling, or for other reasons stipulated in the Memorandum of Association
- General Meeting shall appoint a liquidator prior to starting the liquidation of the company
- each member shall be entitled to share the liquidation balance
- such share shall be calculated as a ratio between the paid-up part of the contribution of the member concerned and the paid-up

Joint Stock Company

- stock capital is composed of a certain number of shares of a certain nominal value
- business name of the company must include the designation „akciová spoločnosť“ or the abbreviation „akc. spol.“ or „a.s.“
- Articles of Association shall determine the nominal value of all classes of shares

Establishment and Incorporation of a Joint-Stock Company

- a joint-stock company may be established by one founder, provided that the founder is a legal entity, otherwise, by two or more founders
- if established by 2 or more founders: a Memorandum of Association shall be executed, if established by sole founder: the founder shall sign a Deed on Establishment

Joint Stock Company: Articles of Association

The Articles of Association shall specify:

- a) the business name and the registered office of the company,
- b) the scope of business (activities),
- c) the amount of the stock capital and the manner of payment of shares,
- d) the number, the nominal value and the form of shares and also an indication as to whether the shares are registered shares or bearer shares,

Joint Stock Company: Articles of Association

The Articles of Association shall specify:

- e) the procedure for convening General Meetings, the scope of its powers, and its decision-making procedures,
- f) the number of members of the Board of Directors, the Supervisory Board and other bodies, as well as the definition of the scope of their powers and their decision-making procedures,
- g) the initial amount of the Reserve Fund and the ceiling up to which allocations must be made to such Reserve Fund, plus the procedure of supplementing the Reserve Fund,

Joint Stock Company: Articles of Association

The Articles of Association shall specify:

- h) the rules governing the distribution of the company's profits,
- i) the consequences of the default in the payment of the subscribed shares,
- j) the manner of increasing and reducing the stock capital, and
- k) the procedure for amending and modifying the Articles of Association.

Incorporation of Joint-Stock Company

- the RegisRC: incorporate a JSC into the Companies Register, with the following requirements:
 - a) the Constituent General Meeting has been held,
 - b) the subscribers have subscribed the stock capital in full and have paid up no less than 30 per cent of the stock capital formed by contributions in cash (exception made for the employee shares),
 - c) the company's Articles of Association have been approved,
 - d) members of the company bodies have been elected.

Joint Stock Company Bodies

General Meeting

- the supreme body of a joint-stock company
- be held at least once a year and shall be convened by the Board of Directors
- shall rule by the majority vote of the attending shareholders
- if there is only one shareholder holding shares on the company, the authority of the General Meeting shall be vested in such sole shareholder

Joint Stock Company Bodies

Board of Directors

- statutory body of the company, which shall manage its operations and act on its behalf
- decide on all matters of the company
- ensure due keeping of the company's accounting records
- submit the annual financial statements, as well as a proposal for the distribution of profits, to the General Meeting for their approval

Joint Stock Company Bodies

Supervisory Board

- supervise the exercise of powers by the Board of Directors and the company's business activities
- Member of the SB: entitled to inspect any document and report concerning the company's activities, & whether the books are properly kept and are in compliance with the actual face of affairs and whether the business of the company is in compliance with the law, the Articles of Association and the instructions of the General Meeting
- review the annual financial statements & proposal for the distribution of profits

Winding-Up and Liquidation of a Joint-Stock Company

- a decision on the winding-up of the company: shall be taken by the General Meeting
- the General Meeting shall appoint a liquidator
- liquidation balance shall be distributed among the shareholders pro rata to the nominal value of their shares
- if the liquidation balance is not sufficed for the redemption of the nominal value of the shares, the liquidation balance shall be distributed among the shareholders pro rata to the paid parts of the nominal value of their shares

Framework chart of accounts for entrepreneurs

- Account Class 0: Long-term assets
- Account Class 1: Inventory
- Account Class 2: Financial Accounts
- Account Class 3: Accounting for receivables and liabilities
- Account Class 4: Capital accounts & long-term liabilities
- Account Class 5: Expenses
- Account Class 6: Revenues
- Account Class 7: Closing Balance Sheet Accounts & Off-Balance Sheet Accounts
- Account Classes 8 & 9: Internal Accounting

Thank you for attention